



# Guide to public–private partnerships for e-services in the postal sector



**UPU** | UNIVERSAL  
POSTAL  
UNION

Published by the Universal Postal Union (UPU)  
Berne, Switzerland  
Printed in Switzerland by the printing services of  
the International Bureau of the UPU

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**ACKNOWLEDGEMENTS:** This publication is the  
result of the collective effort of the UPU's Partner-  
ship and Capacity Building Group, led by the  
Algeria, and supported by the UPU International  
Bureau's Regulations, Economics and Markets  
Directorate. We owe special thanks to the officials  
of the national postal operators who took the  
time to respond with relevant case studies.

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**TITLE:** Guide to public-private partnerships for  
e-services in the postal sector, January 2016

**ISBN:** 978-92-95025-77-6

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## Foreword

The postal sector is undergoing tremendous change. But while postal operators are facing declining mail volumes and increasing competition, they also have a number of opportunities to overcome these challenges and emerge successful. The environment is changing, and failing to move with the times and adapt to new market requirements is simply not an option.

Against this backdrop, the Universal Postal Union (UPU) integrated a number of change processes into its Doha Postal Strategy,<sup>1</sup> Goal 3 of which seeks to promote innovative products and services in order “to improve, modernize and diversify their [postal operators’] products and services to satisfy customers’ changing needs”. Electronic postal services are at the heart of this strategic pillar. The UPU also made provision for the sustainable development of the postal sector through Goal 4 of its Strategy, which supports postal operators’ efforts to build economically sustainable service portfolios. Whether postal operators will succeed in this new postal ecosystem and retain a strong market position will depend on their ability to accelerate innovation. In anticipation of the next Universal Postal Congress, to be held in Istanbul in September 2016, the UPU is in the process of drafting its next World Postal Strategy on the basis of one world<sup>2</sup> and several regional postal strategy conferences.<sup>3</sup> The World Strategy Conference of April 2015 concluded that the growth of e-commerce, the rise of parcel volumes, and changing consumer behaviour were among the various phenomena forcing public postal services to redefine themselves for the 21st century. Changes in consumer habits brought about by new technological applications were cited as one of the greater challenges facing the postal sector.<sup>4</sup>

The main drivers behind the change processes facing postal operators today include developments in the area of information and communication technology (ICT). How we communicate has changed fundamentally in recent years, one effect of which has been mail substitution.<sup>5</sup>

On the other hand, the new postal ecosystem provides postal operators with a number of opportunities. Depending on region and respective market developments, characteristics and demands, postal operators can offer new services or add value to their traditional services by embracing these ICT developments and implementing solutions that the market and their customers need. To fully exploit these opportunities, in particular in the area of e-services, postal operators must have a broad understanding of their role and function in society. They act as intermediaries between customers, businesses and the government and, as such, can offer important services that bring customers together. If we consider postal operators as intermediaries of communication, information and finance, roles they have played for many decades, e-services could drastically increase the scope of the services and solutions they offer.

But while ICT developments provide opportunities for new services, solutions and revenue streams, postal operators and governments may still face a number of challenges and barriers. To embrace ICT developments and implement e-service solutions, postal operators must have a technical understanding of these new technologies, comprehend the needs and demands of the respective market, and invest in the design and construction of the infrastructure and systems necessary for those services. Yet postal operators often do not have the necessary know-how or financial resources.

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1 The global roadmap for postal services – Doha Postal Strategy 2013–2016 (Doc 16 of the 25th Universal Postal Congress held in Doha, Qatar, from 24 September to 15 October 2012), Universal Postal Union, 2012.

2 The World Conference took place in Geneva in April 2015.

3 More information about the world and the regional conferences can be found at [strategy2015.upu.int](http://strategy2015.upu.int).

4 More information can be found at [strategy2015.upu.int](http://strategy2015.upu.int).

5 For more information see *Development strategies for the postal sector: an economic perspective*, Universal Postal Union, 2014; *The global roadmap for postal services – Doha Postal Strategy 2013–2016* (Doc 16 of the 25th Universal Postal Congress held in Doha, Qatar, from 24 September to 15 October 2012), Universal Postal Union, 2012; *Measuring postal e-services development – a global perspective*, Universal Postal Union, 2012; *Postal Services in the Digital Age*, M. Finger et al., IOS Press, 2014; and *Measuring E-Services Development. A Global Perspective*. 2nd edition, 2015.

Developing and implementing new services in the ICT environment is often costly and calls for specific knowledge and expertise. Moreover, some of the services previously developed by postal operators have proven inadequate or impractical for users, with e-services often generating losses. Conversely, other services have proven very successful, responding perfectly to market needs. While trial and error is of course a typical approach to new market-changing developments, the past few years have shown what kind of services can legitimately be considered part of the postal DNA, what postal operators' strengths are and how they can build on them. In any case, postal operators only just entering the e-services market must define a clear strategy and then analyze and select the services they want to implement. They need to identify which services could add value to their existing portfolio and which ones they would like to implement as standalone solutions with a view to triggering positive impacts on other postal business areas.

As mentioned above, implementing new systems or developing ICT infrastructure will most probably require considerable investment. This can be difficult if the postal operator either does not have the necessary financial resources or plans to implement different services at the same time, thereby considerably increasing budgetary demands. Traditional procurement methods may thus be unsuitable. Loans could be a means of overcoming budgetary constraints, but these would need to be paid back, and it may not be clear whether the new service would deliver enough revenue to repay the debt.

Public-private partnerships (PPPs) have been used widely in different sectors and industries to implement projects considered important to the government and society. PPP projects typically relate to areas such as water supply, power generation, roads, telecommunications or healthcare. At the heart of such projects is usually a government pledge to improve the service level in a given area or build new infrastructure. Often these projects require considerable investment, particularly the construction of new roads, power plants or hospitals. However, what some projects need is not extensive funding, but rather an understanding of the system in question and expertise in a specific area. This is the case for PPPs based on new technologies, e.g. ICT and e-services, which usually do not call for massive construction work or concern land or property rights. E-services require less investment and more technical know-how. Their life cycle is also shorter than that of, say, road construction projects, which can span several decades.

Some types of PPP are better suited to e-services. This guide explains: what a PPP is; the options available to operators when choosing a suitable PPP structure and financing model; the relevant requirements and preconditions; potential advantages and disadvantages; and how projects are selected, implemented, managed and monitored. It serves as the first step for any postal service executive who wishes to evaluate the feasibility of a public-private partnership model for either the implementation of an e-service project or the development of an e-service strategy.

PPPs can be an effective way of embracing ICT developments and successfully providing services that the market and customers need. It combines the strengths of the postal operator, its network and logistics, with the knowledge, expertise and efficiency of a private-sector player. To be successful, PPPs must benefit all stakeholders: the postal operator, the private company and the customers.

## How to use this guide

For the sake of clarity, this guide is split into three broad sections: (1) Definitions and models; (2) Policy and analytical framework; and (3) Implementation.

Figure 1: Structure of the guide

Section 1: Definitions and models
<ul style="list-style-type: none"> <li>– defining public private partnerships</li> <li>– PPP types and options</li> <li>– financing structure (models)</li> <li>– public financing</li> </ul>
Section 2: Policy and analytical framework
<ul style="list-style-type: none"> <li>– policy framework (objectives, project scope and size, good governance)</li> <li>– sector analysis (legal and regulatory, technical, financial and economic assessment, stakeholder management, institutional capacity)</li> </ul>
Section 3: Implementation
<ul style="list-style-type: none"> <li>– PPP project requirements (project identification and project assessment)</li> <li>– PPP project preparation (project plan, road map, PPP contract)</li> <li>– procurement process project evaluation and monitoring</li> </ul>

These steps will help postal operators to understand which internal and external conditions they must meet, which steps they must take, how the PPP contract can become a critical factor for the success of their project, and how to avoid risks and pitfalls.

In short, this guide will provide interested postal operators and governments with theoretical knowledge of PPPs, complemented by practical information, case studies, examples and checklists, giving them an overview of the various opportunities provided by public-private partnerships. The documents referenced at the end of the guide provide more in-depth information on certain aspects of PPPs.

Additional remarks specific to this guide:

- 1 This guide is intended for global application and highlights generic findings which can be applied universally. However, it is important to note that local practices and laws can vary, and what works in one country may not in another. This, among other reasons, is why a thorough legal and market analysis must be carried out before a PPP strategy is implemented.
- 2 Several references are made to e-services throughout the guide to highlight similarities and differences with other sectors or applications, special considerations for e-services and case studies providing valuable insight into how e-service PPPs can work and succeed.
- 3 Different partnership models and structures will apply depending on the role and institutional framework of the postal operator. Some postal operators form part of a government administration and, as such, serve as public entities; others are privatized or corporatized and provide services to governments as private entities, whether alone or in partnership with other private companies. According to context, one of the following PPP relationships will apply:<sup>6</sup>
  - a A private company partners with a government-owned (public) postal operator. This scenario, i.e. a government-owned postal operator seeking PPP opportunities through cooperation with the private sector, will be the focal point of this guide. Therefore, wherever the guide refers to government or public entities, it includes the postal operator as part of the government's administration.
  - b A corporatized and/or privatized postal operator partners, as a private company, with the government (the reverse situation).
  - c A corporatized and/or privatized postal operator and another private company form a partnership and jointly offer services to the government (three-partner model).

<sup>6</sup> The annexed case studies also provide examples of these typical relationships.

## Executive summary

PPPs are relatively new in the postal sector but are becoming increasingly relevant given the changes to the postal ecosystem. Postal operators must establish the infrastructure and systems required to provide the new services or solutions demanded by the market. This may call for considerable financial investment and technical understanding or managerial qualifications that Posts either do not have or are unable to acquire within a reasonable timeframe. Thus, to implement and offer these new services, Posts may wish to partner with private-sector players.

There are many options open to postal operators, just as there are for any other public entity in a similar situation. It is possible to follow a conventional procurement process and pay a private company to design, build and implement the service. However, considering the financial implications, postal operators and governments may want to evaluate other options to strike a better balance between capital investment, building and implementing the project, operating the infrastructure and system, and allocating risk. Under such circumstances, PPPs could fit the bill. On the face of it, PPPs are a very effective way of relatively quickly implementing a project which otherwise would take much longer. They can also provide a stronger foundation due to the greater involvement of the private company, incentives provided within the arrangement and the sharing of risk and revenue.

However, implementing a PPP is not straightforward. While several governments have garnered substantial knowledge and experience of PPPs, others have no experience at all. To avoid pitfalls, public entities looking to implement an ICT-related project through a PPP must consider and weigh up the advantages and disadvantages of that approach, analyze the alternatives and follow a process designed to guarantee the successful implementation, operation and conclusion of the project. They must also analyze the legal and regulatory framework of the respective country, the market environment and their own capabilities.

In a nutshell, postal operators must follow a precise roadmap, conduct an analysis, develop a strategy and find the best possible solution for their particular project. In this connection, the main remarks and findings of this guide are as follows:

- 1 In the first instance, postal operators must develop an e-service strategy, identify services that fit their capabilities and market requirements, and prioritize the services they wish to implement.
- 2 Before implementing a PPP strategy, postal operators must analyze the legal and political framework of their country. In the absence of a suitable legal and political framework, traditional procurement or other forms of financing should be chosen.
- 3 It is essential to analyze not only the postal sector in general, but also the more specific area in which the PPP project is to be implemented. A thorough analysis of the market environment (including other sectors offering similar services), regulatory issues, the technical context and the financial and economic framework must also be conducted.
- 4 The various financing options must be analyzed and evaluated: PPPs are not always the best option. Ask yourself the following questions: (1) are there better ways to achieve the objective?; and (2) are there better uses for the available resources?
- 5 Depending on the desired parameters – including investment needs, proposed PPP contract term, responsibilities, risk allocation and the various other elements discussed in this guide – one PPP model may be more advantageous than another. An analysis must be conducted to determine which PPP model best fits the e-service strategy and project requirements.
- 6 Equally important are institutional and organizational instruments. The postal operator should create a PPP unit to serve as a point of contact, manage PPP contracts, aid and support the implementation process and monitor ongoing projects.
- 7 A clear business and project plan and a road map are key requirements. Postal operators should have a clear understanding of the different project phases and milestones and the actions that need to be taken during the various project phases.
- 8 Stakeholder management is a very important success factor. Stakeholders must be convinced, managed and involved.
- 9 Transparency is vital to convince all stakeholders that the various PPP processes (project development, procurement process, etc.) are unbiased, correctly handled and trustworthy.
- 10 A thorough analysis of risks and potential pitfalls must be conducted.
- 11 The postal operator must identify feasible projects and assess their economic viability, affordability, bankability, sustainability and value for money.
- 12 The PPP contract should accommodate the above-mentioned criteria and clearly set out the terms and conditions of the partnership.
- 13 Monitoring and managing PPP contracts are as important as the steps taken to implement the project.

## 1. E-services in the postal sector

ICT developments have fundamentally changed the postal ecosystem. While on the one hand this has led to electronic substitution, on the other, emerging customer demand for electronic services has opened up new business areas, in response to which posts can improve their existing services or create new, standalone services that build on their existing strengths.

Postal e-services have grown globally and rapidly over recent years. However, the situation is not the same everywhere, and while some regions and countries show strong growth rates, other regions (including a number of developing countries) are lagging behind.<sup>7</sup>

### 1.1 E-services and their relevance to the postal sector

The UPU has evaluated and analyzed postal e-services, benchmarked their development globally and identified key factors affecting that development.<sup>8</sup> According to UPU research, e-services are defined as "services delivered by Posts to their end customers through information and communications technology (ICT) channels". In this context, the Internet would be the main e-service delivery channel, but other channels such as mobile phones, call centres or television could also be considered. Services that merely support internal processes, i.e. those not being offered to an end customer (e.g. sorting machines) are excluded from the definition.<sup>9</sup>

Following its first report published in January 2012, the UPU re-evaluated the services and updated the list in its second edition of the "measuring postal e-services development" report, published in October 2015.<sup>10</sup> This led to the deletion of those e-services no longer deemed relevant, the addition of new services and the merging of similar services. The report lists 42 e-services in the postal sector and divides them into the following four categories:

- e-post and e-government services, i.e. communication, business and government services delivered to customers via ICT channels;
- e-commerce services, facilitating the procurement and sale of products and services through ICT channels by enabling the processing and delivery of items purchased physically or electronically;
- e-finance and payment solutions, i.e. financial services provided by postal operators to end customers using ICT channels (the UPU has developed regulations for postal payment services provided among Posts);
- support services, i.e. widely available and mostly free-of-charge services provided by postal operators to end customers using ICT channels.<sup>11</sup>

<sup>7</sup> Measuring postal e-services development – a global perspective, Universal Postal Union, 2012; and Measuring E-Services Development. A Global Perspective. 2nd Edition, Universal Postal Union, 2015.

<sup>8</sup> Measuring postal e-services development – a global perspective, Universal Postal Union, 2012; and Measuring E-Services Development. A Global Perspective. 2nd Edition, Universal Postal Union, 2015.

<sup>9</sup> Measuring postal e-services development – a global perspective, p. 4, Universal Postal Union, 2012.

<sup>10</sup> Measuring E-Services Development. A Global Perspective. 2nd Edition, Universal Postal Union, 2015.

<sup>11</sup> See Annex 2 for a detailed list of services according to the UPU.



Several new services have now made it onto the agenda of postal operators, and the number of these services is likely to increase along with changing market, customer and government demands. Drawing on their many strengths, postal operators could play a key role in all these services and capitalize on opportunities to open up new markets and revenue streams.

There are many ICT-based services which could or should be implemented by postal operators. Some are less complex and could be more easily implemented than others. Accenture writes in its 2014 report<sup>12</sup> that today high-performing postal operators are “embarking on bold strategies across the digital economy and are leveraging digital across all facets of products, services and channels to meet customer needs”. According to Accenture, these high performers:

- take full advantage of the mobile opportunity, using the power of mobile devices to augment and create more value for existing products and services, because they recognize the consumer’s technology shift to mobile;
- establish relationships directly with consumers, thus giving the consumer control over the delivery experience while giving the organization itself a direct communication channel, which also provides them with more information and data on the recipients of their products who have been relatively anonymous so far;
- become an embedded partner in the e-commerce ecosystem by establishing themselves as an integral part of the entire e-commerce value chain, by, for example, expanding their services and solutions beyond their domestic market, or by providing a single point of contact for website design and creation, warehousing, shipping and payment services;
- use digital channels to drive greater operational efficiencies, by, for example, moving lower-value activities to self-service options.

Services likely to play an increasingly important role in the future include identity (identity management and authentication), mobile commerce and analytics. The latter area harbours huge business potential since postal operators have vast quantities of data allowing them to use predictive analytics in a highly competitive market environment.<sup>13</sup>

The implementation of new e-services always requires knowledge and expertise, understanding of demands and feasibility, access to technology and finally also investment. The latter can be provided by own funds, government grants, loans or other means, including public-private partnerships which, while beneficial on several accounts, must be weighed up against the other options.

Mobile services are becoming increasingly pertinent mainly due to the growing penetration rate of smart phones and tablets. These developments are global and particularly relevant to developing countries, where smart phones are taking over a substantial share of communication flows.<sup>14</sup> Therefore, mobile services should be in the crosshairs of postal operators. The USPS Office of Inspector General (OIG) issued a report just recently stressing the importance of mobile services and suggesting that USPS add mobile offerings to its service portfolio.<sup>15</sup> The report suggests both enhancing existing USPS mobile apps by adding account management, payments, packages, post office wait times and customer service contacts, and creating new apps (scan and send, passport control, mobile bill pay, domestic and international mobile money orders, coupon collection).

12 Achieving High Performance in the Postal Industry: Accenture Research and Insights 2014.

13 See also Accenture Research and Insights 2014.

14 For figures on the rapid growth of mobile, in particular pre-paid, phones in Africa see the report of the Infrastructure Consortium for Africa at [www.icafrica.org](http://www.icafrica.org).

15 Mobile Opportunities: Smart Services for Connected Consumers, RARC Report, USPS OIG, 2015.

## 1.2 Developing and implementing an e-service strategy

While it is clear that e-services will play an increasingly important role in the postal sector, postal operators should not simply adopt an approach or service at random, but rather analyze and define what kind of services might enhance their existing portfolio or generate additional revenue. This could depend on regional market requirements, existing services and the government's overall digital and postal sector strategy.

Adopting a digital service strategy is the first step postal operators must take. Disruptive ICT developments need to be identified and the market environment analyzed before taking more concrete steps. Furthermore, postal operators must be able to embrace a digital strategy, which basically means having in place the necessary organizational components, including workforce and management. Management engagement is a key requirement, and staff must be trained. Likewise, technical and operational capabilities must be built or enhanced. It will not be enough for postal operators simply to implement a specific service: they must be able to process data, link existing systems and create output for analysis or further processes. KPIs should also be established to measure the transformation and implementation of the digital strategy.

Before postal operators can implement digital services, they must take certain steps. After developing an e-service strategy, they must identify which e-services can add value to their business and existing service portfolio, and analyze the best financing method. They can then turn to the implementation of their strategy and identified e-services. Figure 2 below highlights this decision-making process from the definition of the digital strategy to the implementation of specific services.

Public-private partnerships could be an attractive option for postal operators implementing e-services. Private-sector companies may be able to provide the required technology and financing, and help implement postal projects based on their experience and capabilities. Governments and postal operators must develop a clear strategy as to whether they want to cooperate with private-sector partners for the development of their e-service solutions, and must clearly understand what a PPP would entail and whether or not it would be preferable to other means of achieving their policy objectives. This guide will help to provide an answer to these questions and to explain the potential role of PPPs.

Figure 2 Development and implementation of an e-service strategy

### Defining the digital strategy

- What are the purpose and objectives of the e-services to be added to the postal service portfolio?
- What disruptive digital developments is the postal operator facing?
- How does the digital strategy fit with the government's strategy and market requirements?

### Identifying e-services

- Identify e-services that can add value, either by enhancing the value of existing services or by providing new capabilities and revenue
- Analyze the market and demand

### Investment/financing

- Identify investment requirements and costs
- Traditional procurement, other funding or PPP?

### Implementation

- Develop a business plan and road map
- Define the optimal financing mechanism
- Conduct a framework and market analysis and implement the project

## 2. Defining public-private partnerships

There is no single internationally accepted definition of public–private partnerships. Differing regional or sector-specific requirements and customs have led to the emergence of different concepts and scopes. In the context of this guide, PPPs are defined broadly so that they can be applied to all continents and potential partnership formats.

That said, a few crucial characteristics are common to all definitions of PPP internationally:

- a long-term agreement between a government, or more broadly a public entity, and a private-sector company;
- an agreement based on the procurement of a public service either contributed to or provided by the private company;
- an agreement transferring from the public entity to the private company certain risks arising from the project’s design, implementation, financing or demand;
- the payment of a fee to the private company for the service provision, whether from government budget allocations or subsidies, user charges or a combination of both;
- private financing (at least in part) where the private company must make an investment in the project.

### 2.1 PPP types and options

With respect to the above-mentioned basic characteristics, PPPs can focus on different functions and asset types.

Under a PPP agreement the private company is responsible for either providing or contributing to a public service. Its functions will vary largely depending on the type of project and the public entity’s needs, but may include:

- designing the project, i.e. developing the concept and delivering the technical and/or operational design;
- building the service, including for example the construction of new assets (e-commerce marketplaces, new digital services, roads, buildings, etc.) or repairing or expanding existing assets;
- maintaining the service/assets over the life of the contract;
- operating the service or part of it, with the private company potentially being responsible for technical operation or the provision of support services to the public entity.

With regard to assets, PPPs are divided into projects that create new assets, known as “greenfield” projects (e.g. where the private company builds and operates a new asset such as an e-commerce platform or a new hospital), and projects that expand or manage existing assets, known as “brownfield” projects.

Governments can structure PPP projects in a number of ways, each of which will have different characteristics involving different levels of risk or responsibility for stakeholders.

For the purpose of this guide, a brief overview of these arrangements and their main characteristics is provided below. The chosen project type and arrangement will depend on the government’s policy and specific objectives, and potentially also on the sector in which the PPP is to be implemented. Duration is an important parameter: while some projects demand heavy investment and take a long time to amortize (e.g. highway construction projects amortized by tolls over a substantial period of time), other projects entail considerably less investment and thus shorter amortization periods, which is often the case with ICT projects. Some types of PPP may be better suited to large-scale investment in infrastructure (buildings, roads, hospitals, etc.), while others may be more appropriate for ICT projects. The different PPP types and arrangements are discussed below.

The following figure provides a rough overview of public and private involvement in public-private co-operations, including the PPP models described below, focusing on service provider management and asset control:

### E-services in the postal sector

Length of amortization will play a significant role in the implementation of e-services. As explained below, some types of PPP are particularly suited to projects with long life-cycles, such as the construction of roads or hospitals. Concession models may be useful in such cases which involve amortization periods of over 20 years. Since e-services have shorter life-cycles, a concession system may prove not to be the optimal choice. Instead, a service agreement or a build-operate-transfer (BOT) model would be a better fit. However, the case of EPTTAVM in Turkey (case study 7, Annex 3) shows that concession systems can be used to implement postal e-services, depending on requirements and circumstances.

Figure 3: PPP types and arrangements

Management of Service Provider	Private	Management contract, franchising Service contracts	Lease contract, affermage	Concession	Full divestiture
	Mixed	Corporatization, performance contract	Joint-venture	BOT, BOO, etc.	
Public	Public entity				
		Public	Mixed	Private	
		Control of Assets			

Source: based on *Understanding Options for Public-Private Partnerships in Infrastructure*, World Bank, 2010

## 2.1.1 Service contracts

Service contracts may, under some circumstances, qualify as PPPs. The main basis on which a service contract can qualify as a PPP is the transfer of tasks to be performed by the private company. Under this arrangement, the private company performs specific services on behalf of a public entity and is remunerated on the basis of a fixed fee, a fee per unit or another element to be agreed upon by the partners. To select a private partner the government usually follows some kind of competitive bidding process. The private company invests only to a limited extent, primarily to cover labour or management costs. The ownership of the service remains with the public entity, which also bears the cost of improving the system or other necessary investment. The private company must perform the service in accordance with the provisions of the service contract and must typically meet performance standards. The contract is usually concluded for a limited period of time, commonly between one and three years.

One of the main advantages of service contracts is the ability to keep competition open, thus incentivizing the private company to provide deliverables in an efficient and highly qualitative manner. It is a suitable option for services that can be clearly defined and where needs, requirements and demand are known to the partners.

Service contracts represent little or no capital investment for private-sector players and a low-risk, relatively quick option for governments. The private company's involvement is in most cases discreet and the customer still deals only with the public entity. This arrangement is therefore particularly suitable for sensitive services where the government needs to remain the service provider on the citizen-facing side. The disadvantage is that under such contracts private companies are traditionally not expected to (and so do not) provide capital investment.

## 2.1.2 Management contracts

This option goes beyond simple service contracts by also transferring management and operations to the private company. The private company runs the service and usually also interacts with customers. However, it does not provide private capital, meaning the public entity basically has to cover any investment in, for example, the improvement or expansion of the service portfolio. The private company is paid a fixed amount based on a predefined fee or a fee per unit, and performance incentives are common. In essence, private companies bring efficiency and expertise, and public entities benefit from these advantages without transferring the assets to the private company.

This type of contract is usually concluded for a shorter period of time, generally no more than five years. Management contracts can also be used to initiate long-term collaborations with private companies, helping to phase them in and allowing both parties to forge a lasting relationship and establish trust.

## 2.1.3 Lease and affermage contracts

Under lease contracts the private company is responsible for operating, managing and maintaining the project. The investment, however, is provided by the public entity. The main difference with management contracts is the desire of the public entity to transfer more commercial risk to the private sector player. This arrangement is particularly suitable either where private investment is not forthcoming or where the public entity wishes to cover the investment itself, thus retaining ownership and involving the private partner only to increase efficiency. The private company does not receive a fixed fee for its service. Responsibility for the service provision is transferred to the private company, which charges consumers accordingly and bears the risk of any losses or unpaid consumer debts.

Affermage contracts are similar in nature. The difference lies in how the public entity is paid: under lease contracts the private company retains the revenue and pays a lease fee to the public entity; under affermage contracts it collects the revenue plus an additional surcharge from customers, pays the public entity an affermage fee for any investment it has made or will make in the underlying infrastructure, and keeps the remaining revenue. The affermage fee is typically an agreed amount per unit sold. Private companies tend to prefer affermage contracts because they provide greater assurance of fees.

The main advantage of both lease and affermage contracts is the incentive for private companies to be efficient and generate higher sales. These types of PPP contract are established for a longer period of time, generally about 10 years or more. Public entities must use their supervisory powers to ensure that maintenance is not sacrificed for greater profit, particularly when the partnership and contract are coming to an end. As mentioned above, these contracts provide a number of benefits in terms of management, operational responsibility and risk, but they still depend on the government to make any investment and to provide the necessary financial capital.<sup>16</sup>

## 2.1.4 Concessions

In contrast to the contracts described above, under a concession the private company (or “concessionaire”) is responsible not only for operations, management and maintenance, but also for financing and managing the requisite investment. Thus, the private company is responsible for all capital investment, but does not take ownership of the assets, which is retained by the public entity for the entire concession period. On termination of the concession contract, all rights in respect to those assets revert to the public entity.

Since the private company covers the investment, it is also given the time to amortize it. Therefore concession contracts are concluded for a longer period, generally between 20 and 30 years, with the revenue coming from the users of the service. The parties typically agree on the setting and future adjustment of tariffs. The private company is responsible for upgrading, expanding or building new features using the revenue earned from the service.

The public entity may set specific performance targets, the attainment of which can be governed by laws or regulations and addressed within the specific framework of the concession contract. How the private company achieves those targets is at its own discretion. However, via control mechanisms the public entity can exert certain rights, whether through regulations or other means. Thorough preparation and an analysis of the market, demand and service are key success factors, and enable private companies to assess the financial and economic environment, predict sales and hence determine tariff levels. Future investment must be taken into account and included in any such analysis.

The analysis may demonstrate that the private partner cannot fully recover its costs, let alone make further investment, in which case cost recovery models must be taken into account and public subsidies may be required to achieve financial viability.

<sup>16</sup> Case study 6 in Annex 3 discusses the USPS's PC Postage system, designed on the basis of a lease model

The clear advantage of the concession system is that the private company takes responsibility for building and thus investing in the project, assumes risk and has the flexibility to steer the project according to its own economic strategy, which encourages it to be efficient and to maintain the relevant assets and infrastructure. However, a number of drawbacks must also be taken into consideration before entering into a concession contract. Because concession projects last for such a long time and transfer full control to the private company, they can be controversial and sensitive. Governments also need to put in place bodies and mechanisms to monitor performance, tariffs and other contractual elements.

In conclusion, while concession contracts tick a lot of boxes (in particular private financing for projects), their duration and transfer of responsibility and risk in a public service domain also make them sensitive, complex and potentially more susceptible to failure or dispute.<sup>17</sup>

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<sup>17</sup> Annex 3 contains a case study on a concession model applied by Turkish Post PTT to implement an e-commerce marketplace (which you can see at [www.epttavm.com](http://www.epttavm.com)).

## 2.1.5 Build-operate-transfer (BOT) contracts

Under BOT contracts private companies typically build new infrastructure, facilities or systems (greenfield approach), and then operate and manage them over a contractually specified period. The financial, managerial and operating responsibility thus shifts fully to the private company, which transfers the project infrastructure or system to the public entity at the end of the project period. BOTs are typically used for projects requiring private funding and investment.

In most cases, private players are special-purpose companies wholly or partially owned by other companies with the necessary know-how to build and operate the respective infrastructure or system. They also benefit from special management expertise, especially where the partners come from different regions and backgrounds.

Under this arrangement, the private company owns the infrastructure or system for the duration of the contract. Again, as with concession agreements, the contract period must be long enough for the private player to amortize the investment and running costs. The public entity commonly agrees to purchase a defined output produced by the facility or system. Often the public entity is the only “offtake purchaser” within the project structure. This is one of the major differences with the concession format, where the service is directly sold to end users. Thorough planning is essential: the public entity must avoid overestimating demand, otherwise it would be obliged to purchase more output from the respective facility or system than it needed. Projected revenue must be calculated to cover operating costs, repayment of debts, maintenance and the financing of both initial and ongoing investment. In addition, since the private company is assuming considerable risk, it will require some form of guarantee or special commitment from the public entity which will be dealt with in some detail in the PPP contract.

Although the private company owns the infrastructure or system for the duration of the contract and then transfers ownership to the public entity at the end of the contract period, the partners do not necessarily cease cooperating at that point. The public entity can transfer operating responsibility back to the private company, thereby extending the partnership. Alternatively, the public entity can enter into a new contract with another partner.

### E-services in the postal sector

BOT and BOO models offer a number of benefits in the context of e-services. They outsource critical and technologically complex tasks to a private company, e.g. a software provider, which designs and builds the system before transferring it to the public entity, meaning the postal operator owns the service and has control over its main features. Because these contracts provide such flexibility, they are often used for projects with short or medium life-cycles, such as e-service projects. The annexed case studies give several examples of BOT and BOO projects in an ICT context.

The typical BOT structure as described above can be adapted to specific circumstances and needs, meaning its structure can change. Other options with similar core characteristics include:

- BTO (build-transfer-operate), an arrangement involving transfer of ownership once the infrastructure is built, and operation by the private company;
- BOO (build-own-operate), an arrangement under which ownership is not transferred to the public entity at the end of the project period;<sup>18</sup>
- DBO (design-build-operate), an arrangement under which the private company designs, builds and operates the infrastructure or system but does not take ownership of it.

Often, deciding whether or not to conclude a BOT or similar contract will depend on the domestic requirements and laws regulating ownership, timing of ownership transfer and other relevant conditions.

In conclusion, BOT contracts have the distinct advantage of incurring relatively little risk for the private company since there is only one purchasing partner, i.e. the public entity. However, given the potential duration of such contracts, the government must be a trusted party and the agreement conditions must be honoured even where the political environment in the respective country changes. The private company must also have the means and remedies to exert its rights where a dispute is brought before an independent judiciary or international arbitration body, and the government must abide by the respective ruling.

These contracts are typically used for infrastructure projects involving substantial capital investment, e.g. toll road constructions.

<sup>18</sup> Case study 2 in Annex 3 shows how an ICT-telecommunications project in Papua New Guinea and the Solomon Islands was implemented on the basis of a build-own-operate (BOO) contract.



The table below provides an overview of the types of PPP detailed above. Note that these examples merely depict the typical structure and form of each type and do not apply to all PPPs. For instance, the contract durations are not set in stone.

Figure 4: PPP types and their main features

	<b>Service contracts</b>	<b>Management contracts</b>	<b>Lease and affermage contracts</b>	<b>Concessions</b>	<b>BOT</b>	<b>Joint venture</b>
<b>Asset ownership</b>	government	government	government	government and private company	government and private company	government and private company
<b>Contract duration</b>	1–3 years	1–5 years	10–15 years	20–30 years	flexible	flexible
<b>Investment</b>	government	government	government	private	private	both
<b>Risk</b>	government	government	both	private company	private company	both
<b>Other</b>	Short-term contracts for efficiency gains	Short-term contracts for efficiency gains	Longer-term contracts with efficiency gains	Longer-term contracts with focus on efficiency and private investment	Variable-term contracts with focus on efficiency and private investment	Flexible contract duration with shared investment and efficiency gains

## Note 1: Why use PPPs?

PPPs are one possible way for governments to implement procurement projects. Since there are other options, before developing a PPP strategy and entering into a PPP process, governments must analyze whether this is the best way for them to implement new infrastructure, systems or services.

The project must be conducive to a PPP arrangement, and the government's analysis must demonstrate that a PPP would deliver better value for money than alternative solutions. This note summarizes some of the main arguments for choosing a PPP<sup>19</sup>:

### 1. Affordability

PPPs provide private capital, negating the need for the government to identify other sources of funding. Where governments cannot cover the necessary investment without borrowing money, a PPP might make a project affordable.

### 2. Private sector expertise and skills

While traditional procurement methods entail the delivery of an asset for a given price by a specified point in time, the PPP model takes a broader view and shifts more responsibility to the private company for the delivery and maintenance of assets at a specified level of service or quality, project management and operation, and the implementation and availability of the relevant infrastructure or service. Public entities must also analyze whether they would be capable of building the infrastructure or system themselves, and whether they could efficiently operate the system once it were delivered by the private company.

### 3. Life cycle cost risk

Unlike under traditional procurement methods, under PPPs private companies look at the entire life cycle of a project. This provides them with a strong incentive to design and build infrastructure or systems that meet long-term needs. Other procurement options might aim merely to ensure limited upfront capital investment by the public sector, failing to take into account the potential for higher maintenance costs later in the life cycle of the asset.

## E-services in the postal sector

Although the implementation of e-services typically requires lower capital than PPPs in the area of construction (e.g. highways or hospitals) the advantages are the same. While private capital and investments will probably play a less significant role, expertise and risk allocation could be highly relevant. In most cases, when developing and implementing e-services, postal operators will need to involve a private company with the relevant know how and expertise. Postal operators may be able to operate and manage the system, and may be ideally positioned to provide the front end owing to their network and trust factor, but they will probably lack the expertise to design and build a software platform (e.g. a platform for interaction with various customers, such as government or citizens, or an e-commerce marketplace). In such cases, it may be wise to adopt a joint approach where a private party provides specific expertise and investment and assumes part of the risk based on a shared-revenue model.

### 4. Risk allocation

Under PPPs, risks are allocated according to the parties' capabilities, i.e. which party is best suited to managing a particular risk.

### 5. Forecast and budgeting certainty

Once a PPP contract has been concluded, the public sector player will know the cost, output and deliverables of the project. For simple procurement projects, the public entity generally knows the upfront investment cost, but potentially very little about future costs such as maintenance.

### 6. Value for money

Before procurement and implementation, each PPP project is subject to a thorough analysis,<sup>20</sup> one aim of which is to gauge value for money. However, PPPs are highly likely to deliver on this front anyway, as they provide private sector expertise and skills, efficiency gains and optimal risk allocation on a whole-of-life basis. Moreover, partners are selected via a competitive bidding process.

<sup>19</sup> Primarily based on: Public-Private Partnerships Reference Guide, version 2.0, World Bank, 2014; and Delivering the PPP promise – a review of PPP issues and activity, PricewaterhouseCoopers, 2005

<sup>20</sup> See chapter on project assessment.

## 7. Focus on output

PPP projects focus on the prospective service (i.e. the output) whereas traditional procurement processes focus on the infrastructure or system by which that service is delivered (i.e. the input). To this end, PPP partners clearly define service and quality levels from the outset, including any mechanisms for their subsequent adjustment or penalties for non-delivery. This clear establishment of responsibilities helps to maintain a high level of service and quality in the long term; by contrast, under traditional procurement methods, the infrastructure or system may deteriorate over time and the level of quality or service may suffer.

## 8. Private capital and investments

Private investment does more than merely make a project affordable. PPPs provide access to a large financing pool consisting of different players and potential partners. Lenders also play a significant role as they want to be sure that their capital is supporting a profitable, sustainable and successful project. They conduct their own due diligence and follow the developments of the project, making it a safer prospect. Another consideration in this context is the timing of public entity payments. The private company bears the risk of late delivery or failure to reach the specified quality level, and the public entity pays only once the private company has delivered.

## 2.2 Financing structure

Financing is a key aspect of PPP projects. While the private company may be fully responsible for financing and providing investment capital, the government must also play its part and understand the financing structure or the risks associated with it. The government has an inherent interest in ensuring that the financing structure is conducive to the desired output and does not jeopardize the project. Governments can also play a direct and active role in financing, e.g. by providing funds themselves.

The government's interest in understanding financing arrangements and their consequences is based on the following factors in particular:

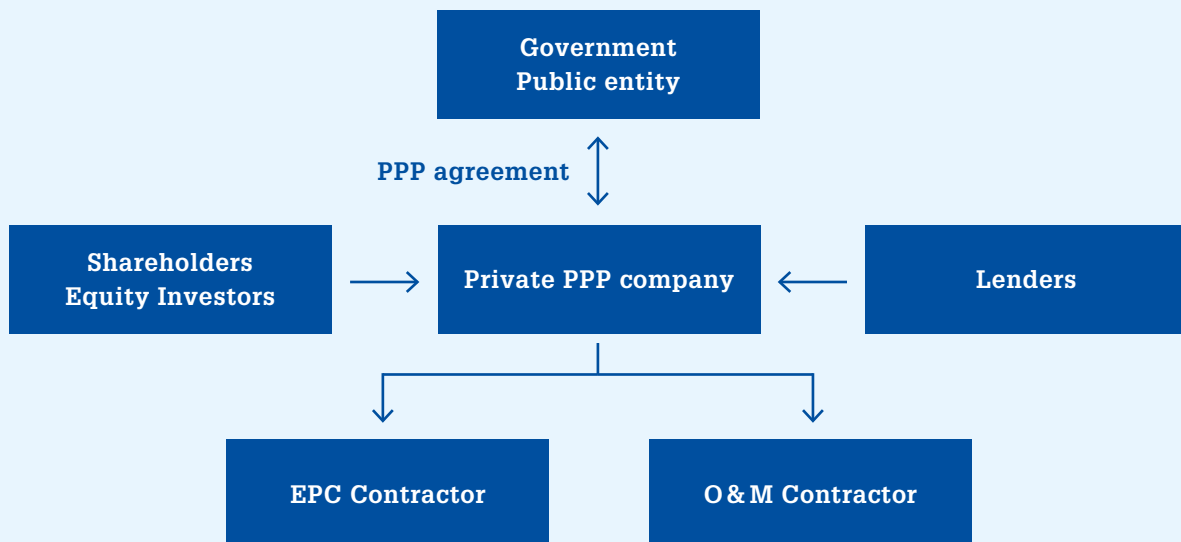
- Public entities looking to enter into PPPs must be satisfied that the project will be able to raise the capital and investment necessary for its implementation. This includes equity from project share-holders and bankability, i.e. the willingness of lenders to support the project, which depends on both the likelihood of the project succeeding and the ability of the private company to repay the debt.
- Bankability is influenced by various factors, including the sector environment and demand expectations, the tariff structure through which revenue will be generated, the allocation of risk between the parties, and the technical and financial viability of the project itself. For example, if the private company bears too much risk, lenders will either reduce the amount they are willing to lend or increase the applicable interest rate. Therefore, risk allocation is a key consideration in the identification of feasible financing structures.
- Another consideration is the debt-to-equity ratio. It is important to strike a balance here, as setting the ratio either too high or too low can adversely affect the project. Under a high debt-to-equity ratio, a larger share of financing is based on debt rather than equity. If economic conditions deteriorate, a high ratio can result in financial shortcomings and potentially bankruptcy. On the other hand, higher debt-to-equity ratios can also incentivize lenders to take remedial action where necessary to ensure the continuity of the project. Against this backdrop, governments sometimes prescribe a minimum level of equity and provide guarantees to lenders for the debt incurred. Equity providers bear a larger risk and are thus usually granted higher returns.
- Governments can also play an active role in the financing structure, by providing either loans or loan guarantees.<sup>21</sup>
- Lastly, since financing is a major aspect of PPPs, governments must understand the consequences not only of the financing structure, but also of the potential failure of a project, including what follow-up action to take.

<sup>21</sup> See PPP Reference Guide, p. 59f., for examples of where governments have guaranteed the repayment of loans in the event of private company default. For more detailed information, see: Outlook for Infrastructure Finance in South Korea: Partnerships at Work (Fitch Ratings, 2006) on Korea's Infrastructure Credit Guarantee Fund, which guarantees loans through a counter-guarantee structure; and Kazakhstan: PPP Opportunities in a Young Country (United States Agency for International Development, 2008) on Kazakhstan's guarantees for infrastructure bonds.

A typical financing structure might include the private company and its shareholders (equity investors) on the one hand and funding through loans (from banks or private and/or institutional lenders) on the other. The figure below shows a simplified financing structure. The public entity signs a PPP contract with the private company, and, as mentioned above, potentially also

an agreement with lenders (e.g. where the government provides a loan guarantee). The private company itself implements the project, taking care of design and construction (as an engineering, procurement and construction (EPC) contractor), and operations and maintenance (as an operations and maintenance (O&M) contractor)<sup>22</sup>.

Figure 5: Basic financial structure



When considering the overall project and processes involved, financing must be sought and secured at the right time. Often PPP projects are awarded before financing has been agreed and secured. This allows potential lenders to conduct due diligence and decide whether or not to finance the project. However, the obvious drawback here is that lenders may decide not to provide funds under conditions acceptable to the PPP partners. This could kill the project before it has even started.

The public entity can mitigate these risks. For example, it can: oblige bidders to provide more financing information with their bids; set deadlines for securing funds, thereby transferring pressure to the private company; call on private companies to enter the bidding process with a financing commitment and solution already in place (although this would necessitate more preparatory work and incur greater risk for the bidding company, potentially deterring bidders and limiting competition); or negotiate a financing package and offer this as potential solution to the private company (this is called 'stapled financing').

<sup>22</sup> See Public-Private Partnerships Reference Guide, version 2.0, p. 50ff. (World Bank, 2015).

Financial arrangements can include rules on refinancing, which might be necessary if the project duration is longer than the initial loan term. Refinancing during the project may thus be necessary to secure financial backing until the end of the contract period. Of course, this generates a risk which should be covered in the PPP contract between the parties. Another reason for refinancing might be changes in the market and financial environment, e.g. where more favourable terms become available. This is quite common for long-term PPP projects, in particular BOTs or concession arrangements.

In this context consideration must also be given to different needs or requirements in different regions. Financing is closely related to remuneration. That is to say, any private company investing in a project will only do so if it realistically believes that it is a profitable business. Some companies may be less concerned with short-term gains and more interested in showcasing their capabilities and earning the trust of the government to facilitate long-term profitable collaboration. But whether short or long term, profit will always be the primary objective.

E-service development varies according to region. In some parts of the world there will already be a huge user base; in other areas this may not be the case. This has an impact on potential revenue. While in some regions the service will be fully financed by users, in others additional financing from the government may be required. The chapters below examine in greater detail the market analyses necessary for the preparation of a PPP. These analyses determine on a case-by-case basis what the best possible financing structure is, and whether demand for the service will be adequate to fully finance the project or whether additional financing (e.g. from the government) is necessary. If e-services and the rollout of ICT projects in general is already on the agenda of the government, this may be an additional incentive for the government to invest as well or to provide some other form of support.<sup>23</sup>

To share knowledge and experience of PPP financing structures, the Public Private Infrastructure Advisory Facility (PPIAF) issued a report on the financing of Indian infrastructure. The Indian case shows where financing can come from and identifies barriers to additional sources of financing. The report also demonstrates that PPP markets develop optimally only where the prevailing legal and regulatory framework provides flexibility and choice around financing. Given the importance of financing to PPPs, if some potential sources – including but not limited to debt, equity, bonds and grants – are blocked or unfavourable, the market may not evolve as planned.<sup>24</sup>

## E-services in the postal sector

Financing is a key component of PPP projects. This includes e-service projects and solutions, even if they do not require as much funding as large construction projects. E-service projects will most probably have a frontend application for customers to access the service, like an e-commerce marketplace or a digital communications platform. Postal operators will clearly need the system to be both operable and reliable, which it may not be if the private company gets into financial difficulties and cannot pay back its loans. Posts must therefore ensure that their partners are financially able to implement and/or roll out the relevant system. Financial risks, including possible failure, must be evaluated. In short, postal operators must understand the chosen financing structure and its potential consequences. This will also allow the partners to define the right remuneration levels, for example the tariffs and fees for users of the service (see below for the importance of setting the right tariffs).

<sup>23</sup> See the annexed case studies on Myanmar, Papua New Guinea and Solomon Islands.

<sup>24</sup> Financing the boom in public-private partnerships in Indian infrastructure: trends and policy implications, Note 45, PPIAF Gridlines, 2008

## 2.3 Public financing in PPP projects

Generally, a key characteristic of PPPs is private-sector investment in the infrastructure or system. However, this does not mean that the private company needs to pay all the costs associated with building or operating the PPP project. Governments can play an active role in financing, in a number of different ways and for various reasons.

Reasons that governments decide to take an active role in financing include:<sup>25</sup>

- minimizing the risk premium to be paid to the private company (if the private party deems the risk to be too high – e.g. where an e-service is implemented but demand or potential revenue is unclear or difficult to predict – it might demand an elevated risk premium, in which case government participation in financing would reduce the risk for the private company and thus the risk premium);
- overcoming trust issues in the PPP relationship around subsidies or other payments in the course of the project (where the government has agreed to pay regular supplements to the private party because its income from the project does not cover all of its costs, and where the latter has doubts about the government's reliability, it may be advisable for the government to pay any such subsidies up front in the form of a loan);
- deficiencies in the financial market environment (where the financial sector is experiencing difficulties and long-term loans are hard to come by, the government may bridge the gap and pass on its favourable borrowing conditions to the private company, thus reducing overall costs).

The format or structure through which governments co-finance PPPs project can also vary.

For example, governments can provide loans to private companies. This may also be seen as a signal to the market that the government is prepared to bear part of the risk, underlining its ambition to implement a PPP project. Loans of this kind also bring the benefit of lower interest rates, which are common where government bodies act as lenders or borrowers, thus reducing project costs.

It is also possible, though less common, for governments to provide part of the equity. While this affords the public entity better access to information and greater involvement in the project itself, it can also cause issues such as conflicts of interest.

While loans can be issued by the government, they can also be provided by the financial market and guaranteed by the state. However, governments should carefully consider any decision to issue such guarantees as they can undermine PPP objectives. A key characteristic of PPP projects is the transfer of risk to the private company, but if the government guarantees the loan then this risk is mitigated. For that reason, governments should guarantee only part (if any) of the loan.

A forfeiting model<sup>26</sup> can be used to lower financing costs whereby the public entity makes a commitment to the private company to pay a share of the costs (usually at least enough to repay the loan) on implementation of the project, i.e. on completion of the infrastructure or system. Like for other co-financing structures, governments must ensure that this does not lead to lower performance incentives and that the private company meets its agreement obligations, such as efficient service provision or infrastructure/system maintenance. As previously mentioned, this may be a suitable solution where demand or growth of demand and e-service usage is unclear or difficult to predict.

State finance institutions and domestic and regional development banks can help to ease the financing of PPP projects. These publicly-owned structures must be free from political interference and capable of both assessing PPP projects and conducting due diligence, and must also have relevant knowledge and expertise. Moreover, they should set clear rules and guidelines for the provision of financial support to PPP projects. These institutions could potentially play a significant role in e-services and ICT development; indeed, in some markets, regional development banks are particularly active.<sup>27</sup>

25 For a detailed discussion of the role of public financing in PPPs, see Public-Private Partnerships Reference Guide, version 2.0, p. 58f., World Bank, 2015.

26 A variation on the forfeiting model is the French *cession de créance* (debt assignment), under which, once the infrastructure is built, the government commits to make unconditional payments to cover part or even all of the debt. In Peru, the government developed the *Certificado de Reconocimiento del Pago Anual por Obras* (Certificate of Acknowledgement of Annual Payment for Works – CRPAO), which it issues to private companies for reaching construction milestones. These payments are unconditional, i.e. not linked to performance or operations. Debt for the project itself is raised through bonds backed by the securitization of the certificates. For more information, see Public-Private Partnerships Reference Guide, version 2.0, p. 60f. (World Bank, 2014).

27 See the agenda and projects of the Asian Development Bank, for example.

## 3. Policy framework

All PPP projects must be underpinned by a clear policy. Political entities must understand how PPPs work, what they can achieve and whether they can help to attain specific targets. A clear policy will also benefit potential investors, eliminating ambiguities and reducing costs. Governments must therefore clearly articulate their PPP policy, setting out how they plan to integrate PPPs into their overall service provision.

The cornerstones of any such policy are the political entity's objectives, the intended project scope, implementation principles and adherence to good governance.

### 3.1 Objectives of PPPs

There are many reasons why governments and public entities consider concluding PPPs, whether to overcome administrative and bureaucratic hurdles, address financial and budgetary constraints or compensate for a lack of knowledge and expertise.

The objectives of PPPs are to attract financing from private sources, improve the efficiency of the asset or service, incentivize best practice in the design, operation and maintenance of the respective service, and to stimulate innovation. PPPs can also support a government's strategy to reform specific industries, serving as a vehicle for restructuring sectors and redefining roles. Private companies can thus become players and stakeholders in a given sector, and the government can assume the role of regulating and supervising that sector.

Attracting private capital is one of the key drivers for involving private companies, owing to the budgetary constraints alluded to above and the considerable cost of implementing and expanding services, new technologies and infrastructure. The other driver mentioned above, improving efficiency, is based on the general assumption that public entities are less concerned with rationalizing processes, although some governments have proven that they can perform as efficiently as most private companies. Nonetheless, transferring operational roles to efficient private companies can cut spending for the public entity and provide better, cheaper services for citizens and consumers. Efficiency mechanisms can also help to ensure the timely completion of projects. PPP agreements provide incentives, e.g. penalties for delays, for private companies to complete projects on time.

#### Note 2: Excerpt from the Policy Framework of the Australian Government

The aim of a PPP is to deliver improved services and better value for money primarily through appropriate risk transfer, encouraging innovation, greater asset utilization and an integrated whole-of-life management, underpinned by private financing. ... The choice between public and private provision of infrastructure will be based on a rigorous value-for-money assessment as part of a procurement strategy. Where it is determined that private sector provision of public infrastructure and related services will deliver better value for money, the choice of contractors will be through a consistent, transparent system of competitive tendering. ... Where the requisite value for money drivers exist, PPPs can potentially deliver significant benefits in design, the quality of services and the cost of infrastructure. PPPs can draw upon the best available skills, knowledge and resources, whether they are in the public or private sector. Departments and agencies can focus their own efforts on the delivery of core services, and use the savings generated to improve or expand other services.

*(National Public Private Partnerships, Policy Framework, December 2008)*

## 3.2 Scope and size

The scope should be defined in accordance with the government's objectives. It may encompass only certain sectors, e.g. where the political entity's policy is limited to specific sectors in accordance with various criteria. For instance, the political entity may wish to reform or reorganize a particular sector and involve private companies in the process. A government's policy can also be generally open to PPPs while excluding certain (e.g. particularly sensitive) sectors. In the context of this guide, this could mean that the government uses PPPs to achieve its objectives specifically in the postal sector with a view to introducing new technologies and electronic services. PPPs could thus help to open up part of the sector to private companies, bringing investment, expertise, technology and operational and managerial knowhow into the partnership and spreading the risks associated with the project. It would be helpful if the government had already entered into other PPPs and garnered experience of launching and running PPP projects. This would also be a positive sign to the private sector.

Depending on the sector or project type, governments can also set rules to govern project scope. Due to the complexity and cost of some PPP projects, it might make sense to set a minimum threshold under which PPPs cannot be considered. Several governments have opted for such an arrangement.<sup>28</sup>

### E-services in the postal sector

Where the postal operator is part of a government administration, the main PPP policy will be developed within the structures and hierarchies of government, as described in this chapter. Postal operators that are corporatized, privatized or otherwise decoupled from the government will have to devise their own policy, or in this case strategy. They must establish a basis and framework before identifying projects. They must also define the objectives and outputs of their e-service PPP strategy, determine the scope and size of each project and develop the appropriate organizational capabilities, as per the considerations in this chapter.

## 3.3 Implementing and good-governance principles

Implementing principles form part of the PPP policy. They provide some of the guidelines along which the project is run. In essence, they are the standards against which those responsible for the PPP project are held accountable. They can be general guidelines or even excerpts from laws or regulations.

The principles can take different forms but common examples include public interest, risk allocation, efficiency, affordability, fiscal considerations, social and environmental responsibility, value for money, transparency, decency, accountability and financial sustainability.<sup>29</sup>

They can also be seen as good governance rules,<sup>30</sup> since they guarantee:

- a fair and transparent selection process;
- value for money;
- a higher service level, in particular for socially disadvantaged groups;
- commercial success with a fair return for the private partners assuming risk.

<sup>28</sup> For example, in Brazil, Law no. 11079 of 2004 (available at [www.planalto.gov.br](http://www.planalto.gov.br) in Portuguese only) stipulates that only two types of contract can be implemented under a PPP, namely sponsored concessions and administrative concessions with a minimum duration of five years and a minimum value of 20 million reais. In Colombia, Law no. 1508 of January 2012 (available at [wsp.presidencia.gov.co](http://wsp.presidencia.gov.co) in Spanish only) states that PPP contracts must make the private investor responsible for operations and maintenance, must not exceed 30 years in duration and must be worth at least 6,000 pesos (the minimum legal monthly wage at the time the law was published).

<sup>29</sup> See the guidelines for Australia at [infrastructureaustralia.gov.au](http://infrastructureaustralia.gov.au), for Brazil at [governo-sp.jusbrasil.com.br](http://governo-sp.jusbrasil.com.br) and [www.planalto.gov.br](http://www.planalto.gov.br) (Portuguese only), for Puerto Rico at [www.app.gobierno.pr](http://www.app.gobierno.pr), and for Mauritius at [unpan1.un.org](http://unpan1.un.org).

<sup>30</sup> For more information see the Guidebook on Promoting Good Governance in Public-Private Partnerships by the United Nations Economic Commission for Europe at [www.unece.org](http://www.unece.org).



**4. Environment & framework: sector analysis**Note 3: Good governance principles for PPPs<sup>31</sup>

- 1 Establish a clear, predictable and legitimate institutional framework supported by competent and well-resourced authorities:
  - a ensuring public awareness of the relative costs, benefits and risks of PPPs and conventional procurement;
  - b maintaining key institutional roles and responsibilities with clear mandates for the procuring authority, PPP units, the central budget authority, the auditing institutions and sector regulators;
  - c ensuring that all regulations affecting the project are clear, transparent and enforced.
- 2 Ground the selection of public-private partnerships in value for money:
  - a prioritizing investment projects at senior political level;
  - b excluding institutional, procedural or accounting bias towards or against PPPs;
  - c investigating which investment/finance method is likely to yield most value for money, thus comparing risks and characteristics of PPP models and conventional procurement;
  - d defining, identifying and measuring risks and transferring them to the entity best placed to manage them;
  - e preparing not only for the implementation, but also for the operational phase of the project;
  - f preparing for potential changes, thus ensuring that value for money is maintained when renegotiating;
  - g ensuring that there is competition in the market and that the market will continue to function.
- 3 Use the budgetary process transparently to minimize fiscal risks and ensure the integrity of the procurement process:
  - a ensuring that the project is affordable and the overall investment envelope is sustainable.

**4. Environment & framework: sector analysis**

As explained above, the first step in any PPP project is the general decision and willingness of the political entity to enter into a PPP process, i.e. the adoption by government of a policy and strategy to involve private companies in the provision of public services, either generally or for a specific sector or purpose.

The government defines the sector and scope within which it wishes to launch the PPP project. Its decision triggers a series of processes and studies geared towards analyzing the sector and market environment, identifying potential gaps in the existing legal and regulatory framework, and examining not only technical issues but above all the financial and economic facets of the project.<sup>32</sup>

This chapter details the steps that must be taken during the sector analysis before the project can be launched. In addition to the objectives mentioned above, the sector analysis also look at existing PPP options, including the criteria for their selection.

<sup>31</sup> Based on the Recommendation of the Council on Principles for Public Governance of Public-Private Partnerships, OECD, 2012.

<sup>32</sup> For more information on regional 'readiness' for, and barriers to, PPP projects, see Infrascopes 2012: Evaluating the environment for public-private partnerships in Latin America and the Caribbean, Economist Intelligence Unit; Infrascopes 2014: Evaluating the environment for public-private partnerships in Asia-Pacific, Economist Intelligence Unit; and EECIS Infrascopes 2012: Evaluating the environment for public-private partnerships in Eastern Europe and the Commonwealth of Independent States, Economist Intelligence Unit.

## 4.1 Legal and regulatory framework

While a number of countries have developed robust legal and regulatory frameworks for PPPs, many others lack the necessary legal basis. That is precisely why one of the objectives of the sector analysis is to analyze the legal and regulatory framework and identify any potential gaps. This is particularly important since without a proper legal basis PPP projects cannot succeed, not least because investors will be deterred by the lack of relevant legal or regulatory mechanisms and the high risk of project failure.

The legal framework comprises all laws and regulations that govern and influence PPP projects. It also encompasses legal entities, such as regulatory bodies, and arrangements related to the sector in question.

The analysis therefore focuses on:

- laws and regulation applying to PPPs;
- government entities, regulatory bodies and other oversight arrangements;
- sector-specific rules and possible tariff and subsidy policies;
- quality of service or other mandatory standards in the respective area or sector;
- environmental laws and regulations;
- labour law and regulations;
- generally, any limitations on foreign investments (e.g. direct full or partial ownership, money transfer and repatriation of profits or any other rules or restrictions likely to deter investors);
- licensing requirements;
- tax laws;
- procurement laws and provisions;
- contract law, in particular dispute resolution mechanisms, including the domestic judiciary framework, as well as international arbitration and enforceability.

### Note 4: Sector regulation and alternatives

In many cases postal services are subject to specific sectoral regulations. Some of these are aimed at governing markets characterized by monopoly or near-monopoly situations, whereas others address specific market failures (by governing quality-of-service levels or specific features of a service provision, for instance), even if the market is open to competition.

In the case of e-services the service itself may fall outside the actual scope of the regulatory body's supervisory power. However, governments may wish to establish rules for PPPs, e.g. for tariffs or quality-of-service levels. A suitable approach would be to deal with these matters within the PPP contract itself, thus setting out the rules and obligations and how they will be monitored and supervised. PPP contracts are discussed in more detail in the chapter on drafting (designing) PPP contracts below.

The analysis will also be influenced by whether the legal system is based on civil law or common law. While in civil-law countries most of these rules and regulations are found in written law and in particular administrative law, the laws of common-law countries are mainly derived from precedence. This has direct implications on the PPP legal framework. While in civil-law countries the existing laws will provide rules and regulations for most circumstances governing PPPs, in common-law countries PPP contracts must deal with more issues that are not directly prescribed by law or regulation, making them generally much longer and more detailed.

In some countries, where existing laws or regulations have been deemed insufficient or inadequate to govern PPPs, special PPP laws have been enacted.<sup>33</sup> These enable governments to address all open issues and gaps in existing laws and provide solutions for the implementation of PPPs. They also help to underpin the government's commitment to its PPP policy. Common-law countries can also enact specific PPP laws not only to better promote and regulate PPPs, but also to show a stronger commitment than might be demonstrated by a PPP policy.

33 Examples of countries and their domestic laws enacted specifically to regulate PPPs include: Colombia, Law no. 1508 of 2012 (available at [wsp.presidencia.gov.co](http://wsp.presidencia.gov.co) in Spanish only); Brazil, Law no. 11.079 of 2004 (available at [www.planalto.gov.br](http://www.planalto.gov.br) in Portuguese only); France, Law no. 2004-559 (available at [www.legifrance.gouv.fr](http://www.legifrance.gouv.fr) in French only) and Law no. 2008-735 (available at [www.legifrance.gouv.fr](http://www.legifrance.gouv.fr) in French only); South Africa, Act no. 1 of 1999 (available [www.treasury.gov.za](http://www.treasury.gov.za)); and Puerto Rico, Act no. 29 of June 8, 2009 (available at [www.app.gobierno.pr](http://www.app.gobierno.pr)).

The success of a project, starting with its implementation, depends largely on the applicable legal and regulatory framework and the government's ability to implement a PPP strategy and PPP project. The recent cases of Colombia and Jordan show how a government can implement infrastructure and units and adapt its legal framework to allow for the implementation of PPP projects. Both examples underline the importance of suitable and efficient legal and regulatory frameworks, a strong public entity or agency with a robust mandate and the ability to develop and implement PPP projects, and guidelines and processes enabling the public entity to both implement and monitor PPP projects.<sup>34</sup>

It is therefore essential that postal operators intending to implement infrastructure or systems via PPPs first ensure that the institutional and legal frameworks are in place to allow the successful implementation of PPP projects. If that is not the case, other ways of financing (traditional procurement processes and loans) may be better suited to the implementation of that project.

## 4.2 Technical issues

The sector analysis also examines the technical environment, chiefly to determine whether there are any technical constraints within the sector and, if so, how they can be overcome. Such constraints generally result from poor infrastructure, low investment in technology and maintenance and management issues.

Technical issues can affect not only the PPP project and its concrete objectives, but also connectivity and links to other vital infrastructure. The government must therefore determine whether, for example, the road system is adequate for a transport-based PPP or whether the power lines are sufficient for the implementation of a PPP project requiring electricity. These questions are particularly relevant in countries with general infrastructure issues because most PPP projects entail a degree of interdependency between infrastructure components.

### E-services in the postal sector

Technical considerations are particularly important in the context of e-services. Before implementing e-services postal operators must evaluate whether the existing infrastructure and connectivity can provide a solid basis for the new service or solution. In cases where the basic infrastructure is underdeveloped, this could even be an opportunity for the postal operator to play a more significant role in facilitating higher connectivity and public access to ICT, which may form part of the government's policy. The ICT case of Papua New Guinea and the Solomon Islands could serve as a good example, although here the ICT network was not rolled out by the postal operator itself. Posts also have the advantage of pre-existing physical networks, which could be leveraged to broaden access to Internet and e-services.

<sup>34</sup> For more details, see *PPIAF Supports the Development of the New National Infrastructure Agency in Colombia* (December 2013) at [www.ppiaf.org](http://www.ppiaf.org) and *PPIAF Supports the Institutional and Policy Environment for PPPs in Jordan* (December 2014) at [www.ppiaf.org](http://www.ppiaf.org).

## 4.3 Financial and economic assessment

Sector analyses also cover the financial and economic situation of the market environment, the sector and the specific project. Knowing the current situation of the sector allows decision-makers to better define their objectives for the project. Financial and economic assessments also help to define the project structure and design as well as pricing mechanisms and tariffs. In short, this step is crucial to the viability of the project and the sustainable implementation of the infrastructure or system.

The tool used for the assessment is a financial model that integrates all necessary data and depicts different scenarios that will ultimately be used as the basis for shaping the structure, deciding on appropriate financing and how, as well as to what extent, revenue is generated.

Gathering data is the first key requirement for the financial model. This includes both historical and actual data on operational issues, employment structure, production levels, technical assets and all manner of financial indicators. Data can be derived from audited financial statements, existing tariff levels, sector employment figures and investments or debt information.

In addition to this sector-specific data, the financial model requires macroeconomic data, such as gross domestic product, inflation or interest rates and demographic information. This data helps to determine future demand, potential tariff levels, necessary investment and projected revenue. Financial indicators are used in a series of calculations to test different scenarios. These calculations include:

- Project Internal Rate of Return, which shows the return of the project regardless of financing structure;
- Return on Equity, which provides an estimate of the returns shareholders will receive;
- Annual Debt Service Converge Ratio, which provides key indications as to whether the private company can repay the debt in a given scenario, for any operating year;
- Loan Life Service Cover Ratio, which indicates, for any operating year, whether the private company will be able to withstand cash shortfalls during the project, leading to an inability to back loans towards the end of the project;
- Net Present Value of Subsidies, which calculates the subsidies on an actual basis, particularly relevant where subsidies are paid over time and the objective is to identify the hypothetical amount if the subsidies were to be paid in full at the present time, thus neutralizing the effects of inflation.

As explained above, the model helps to anticipate results and risks. This has a major impact on the structure, financing and operation of the PPP model. It also enables optimal preparation for the bidding process as the public entity must understand which indicators are important for both the private sector and potential lenders, and under which circumstances they would consider entering into a partnership. Finally, the model helps to determine which tariffs will be accepted by users and consumers, whether these tariffs need to be adjusted or whether laws or regulations need to be changed in response to market realities.

## 4.4 Stakeholder communication and involvement

The importance of involving stakeholders throughout the preparation, bidding and implementation phases cannot be overstated. Since PPP projects typically concern public or universal services and hence sensitive goods or systems, it is important to understand the interests of the various stakeholder groups and to address them accordingly.

The interests of stakeholders can vary widely. Consumers and users expect high-quality services that are accessible, affordable and fairly priced. Employees want job security, decent pay, career opportunities in new structures and inclusion in future processes. Governments prioritize efficiency gains, private funding, higher revenue, consistently high service levels and sound management. They also expect PPP projects to attract investors, lenders and private partners to implement and operate the system. In turn, investors and private-sector partners look for transparent processes, legal security, freedom to operate and manage projects, and positive market environments that deliver sufficient demand and qualified, well-trained personnel.

Governments must actively take into account all of these interests. The successful implementation of PPP projects calls for active consultation and communication with stakeholders. To ignore their voices and views would trigger opposition and resistance, cast doubt on the success of the project and potentially generate enough risk to deter private companies and investors.

Stakeholders can also provide valuable input for projects, increasing the chances of success and minimizing risk. If public entities can positively influence public opinion of a given project, it will also strengthen the commitment of politicians and the government, further minimizing risk and encouraging the private sector to get on board. Of course, interest groups and stakeholders may voice their opposition to project plans, but it is always better to listen to stakeholders' concerns than ignore them.

### E-services in the postal sector

In most countries postal services are still considered public. Changes to the main, traditional pillars of postal services or organizations have attracted considerable attention in the past. The corporatization and privatization of Posts and the restructuring of postal branch networks and workforces have incited much public debate. This underlines the important role of postal operators in everyday life and the sensitivity of the public to change. Depending on the e-service in question, PPPs could be regarded critically in some regions or countries, in particular where postal operators still form part of the public administration. As explained elsewhere in this chapter, sound stakeholder management – accounting for the characteristics of the project, the country or region and the organization and institutional framework of the postal operator – can both allay concerns and demonstrate the fairness and transparency of the project.

Governments need clear communication strategies to properly address stakeholder issues. Stakeholder management must be regarded as a broad process calling for thorough preparation. To better understand the interests and views of stakeholders, governments must gauge public opinion through research, surveys and communication with stakeholder groups. Once major objections have been identified, public entities can address them, for example through mechanisms or rules guaranteeing transparency, fair processes and any other principles that might allay stakeholders' concerns. This can be discussed during the consultative process, but also through public-awareness measures such as media campaigns. Roadshows, such as those launched in conjunction with privatization processes, can also be an effective way of directly addressing stakeholders and the public.

35 For a concrete example of successful stakeholder management, see the Philippines case study discussed on p. 23 of the Public-Private Partnership Handbook published by the Asian Development Bank. The study explains the difficulties encountered in the Philippines during public procurement processes and how the government dealt with them to ensure private participation in infrastructure for water and wastewater services in Metro Manila. The Philippine government's communication strategy focused on promoting transparency throughout the project. It started months before the bidding program, educating the public on the measures taken to ensure transparency and the integrity of the bids, using different media including TV. It also highlighted the objective nature of the bid evaluation process, including rules for bidding and the procedure for opening bids. The government's communication strategy was a key pillar of the project's ultimate success.

## 4.5 Government commitment and institutional capacity

The importance of the government's commitment to the PPP process has already been highlighted above. One of the government's duties is to establish clear structures and ensure that the public entity has the necessary capacity and resources. This includes internal governance and the use of external advisors to provide knowledge and expertise.

Internally, PPP projects typically comprise a PPP unit<sup>36</sup> or steering committee and a project implementation unit or project management team. PPP units are points of coordination, quality control and accountability for PPP projects and can cover one or more sectors. They are the point of contact for the private sector, guaranteeing the transparency of processes and policies. For the public entity they are also vehicles for gathering information and driving ancillary processes, e.g. information gathering or opinion polling. They supervise the process to ensure the efficient use of resources, transparent bidding procedures and fair treatment of competitors, employees or other stakeholders. They play a key role in identifying PPP projects and preparing processes.

These units must have the authority and backing of the government, and must be positioned within the government structure such that they can work optimally and exercise their coordination function well.

Project implementation units are tasked with implementing the actual project. They manage implementation for the duration (usually the entire life cycle) of the project and carry out concrete work, cooperating with external advisors as necessary. They manage the process from the government's perspective, handling the procurement procedure and monitoring and reporting on project development and progress.

### E-services in the postal sector

Once a government or postal operator decides to implement a PPP strategy, it should establish the necessary infrastructure. Institutional capacity is a key requirement for the success of all projects, including e-service PPPs. A PPP unit could serve as a hub for interested private companies and handle administrative and contractual tasks, leaving another division within the Post to deal with technical and customer-oriented issues. The support provided by such units can be very useful in e-services or other technical projects since the various postal divisions can concentrate on the service and solution itself and leave the administrative and subsequent monitoring tasks to an experienced PPP body within the organization.

External advisors bring crucial knowledge and expertise to the project and are employed at every stage of its life cycle. Consultants are usually already involved during the early (preparatory) stages of PPP projects to help devise plans, identify requirements and provide any other assistance as necessary. Further consultants provide expertise on legal matters (e.g. legal requirements and consequences, legal risks, drafting of PPP contracts, etc.), financial considerations (e.g. funding, financial modelling, lender negotiations, etc.), and technical subjects (e.g. technical specifications, evaluation of bidders proposals, technical design work, etc.). Finally, advisors with specific knowledge are employed for areas of particular interest to the project, e.g. demographics and environmental or societal matters.

<sup>36</sup> See Note 5 for a good example of a PPP unit, created in the Philippines; see also *Public-Private Partnerships: Best Practices and Opportunities for the Postal Service*, a white paper published by the USPS Office of the Inspector General on June 24, 2013, which states that the lack of a specified PPP unit makes it difficult to enter into partnerships or even locate a responsible person within the USPS. The report concludes that "[a] single office for PPPs could implement best practices such as creating a central repository to monitor the performance of revenue-sharing agreements. Furthermore, establishing a centralized office could resolve a lack of unified and up-to-date guidance on strategic alliances or partnerships, and would provide a first-stop address for potential partners."

## Note 5: Public-Public-private Partnership Centre of the Republic of the Philippines

A number of countries with well-developed PPP strategies have created PPP units or centres empowered to drive, coordinate and monitor PPP programmes. A prime example is the Public-Private Partnership Centre of the Republic of the Philippines, whose functions are described as follows<sup>37</sup>:

- 1 Facilitate projects and provide assistance to the national implementing agencies, including government corporations and local government units (LGUs) in addressing impediments to or bottlenecks in the implementation of PPP programmes and projects.
- 2 Provide advisory services, technical assistance, trainings and capacity development to agencies/LGUs during PPP project preparation and development.
- 3 Recommend plans, policies and implementation guidelines related to PPP in consultation with appropriate oversight committees, implementing agencies, LGUs and private sectors.
- 4 Manage and administer a revolving fund to be known as the Project Development and Monitoring Facility for the preparation of business case, pre-feasibility and feasibility studies and tender documents of PPP programmes and projects.
- 5 Monitor and facilitate the implementation of agency/LGU priority PPP programmes and projects as formulated by the respective agencies/LGUs in coordination with the National Economic and Development Authority (NEDA) Secretariat.
- 6 Establish and manage a central database system of PPP programmes and projects.
- 7 Recommend improvements to timelines in processing PPP programme and project proposals, and monitor compliance of all agencies/LGUs.
- 8 Prepare reports on the implementation of government PPP programmes and projects for submission to the President at the end of each year.
- 9 Perform such other functions which may be critical in expediting and implementing effectively the government PPP programmes and projects.

## 4.6 Project risks and pitfalls

PPPs may also bear risks, most commonly in relation to the general environment and the government's preparation of the PPP process, including the analysis, identification and implementation of the project. Notwithstanding the general benefits of PPPs compared with other procurement options (as described in Note 1), the risks and pitfalls of such arrangements must be identified and dealt with, all the more so where governments/postal operators also pay for the investment.

- If the postal operator pays for the infrastructure or system, efficiency gains must be assured. Otherwise PPPs would offer no real advantage over other procurement options, such as debt-financed public procurement.
- Controls are essential, in particular where the postal operator pays for the infrastructure or system. If the government cannot guarantee the provision of control functions, it must be aware of the fiscal exposure to its PPP contracts.
- Posts must be aware of all the risks they take, especially where the postal operator or government guarantees certain risk factors, such as demand and exchange rates.<sup>38</sup>
- It is essential that the market and sector are analyzed and a suitable project identified with the utmost care. If projects are not selected according to the criteria and steps described in this guide, a PPP may ultimately cost more than a traditional procurement method. In addition, output may not correspond to expectations and requirements, due to poor planning, inadequate analysis or political factors interfering with project selection and implementation.
- While PPPs are primarily intended to increase efficiency, they may fail in this task if postal operators – and specialized government units where applicable – do not effectively structure, procure, manage and maintain PPP projects on a whole-of-life basis. Providing genuine incentives through risk transfer and competitive tension is one way to ensure success. Setting clear quality standards and controls in connection with incentive or penalty mechanisms can also help to achieve the desired output.

These risks are particularly pertinent in projects involving sophisticated technology or software. E-services have several characteristics making them susceptible to risks and pitfalls.

<sup>37</sup> For a detailed description of the PPP Centre's mandate, functions and mission see [www.ppp.gov.ph](http://www.ppp.gov.ph).

<sup>38</sup> For examples of excessive financial exposure in Colombia, Korea, Mexico and the United Kingdom see Public-Private Partnerships Reference Guide, version 2.0, p. 36ff., World Bank, 2014.

First, e-services are usually characterized by short life cycles. Technology is short-lived and regular updates are more of a rule than an exception. Postal operators must plan for updates or system overhauls after a given period. Second, this may require additional investment, so the PPP contract should clearly define who bears responsibility and cost to this end. Third, postal operators must fully understand what happens when they assume ownership of a system, e.g. under BOT agreements. When the postal operator assumes ownership (e.g. five years after the termination of the contract with the private company) it must either be capable of operating the system itself or tender out that task. Fourth, Posts must have a sound understanding of the project, its efficiency gains and future development in order to leverage the partnership and exploit their control functions. And fifth, as previously mentioned, postal operators must clearly define their e-service strategy and anticipated output. If postal operators implement e-services simply because they want to be active in the market, they may be tempted not to thoroughly analyze market requirements, demands and risks, and to adopt an overly optimistic approach, which could ultimately prove costly.

Postal operators' analyses should therefore attach just as much importance to the potential risks and pitfalls of a PPP project as its benefits.

## 5. PPP project requirements

We have already looked at some of the general requirements of PPP projects, including a number of fundamental measures calling for long and careful consideration. The adoption of a PPP policy and an appropriate strategy is a good starting point. Any government or public entity, including postal operators, looking to implement a PPP project must develop a PPP policy clearly identifying the targeted areas or sectors, the scope and size of the policy and the desired output and objectives.

Policies must have a robust foundation, including a legal, regulatory, organizational and financial framework commensurate with the PPP process and the challenges involved. Legal or regulatory shortcomings identified during the sector analysis should be addressed and any necessary laws enacted. Institutional structures must be in place, including a PPP unit or high-level team to supervise and manage the government's policy. Where those structures do not yet exist, they must be created before any concrete steps can be taken under the PPP process. Government bodies should assume the various management, supervision and auditing responsibilities as part of a balanced system. At the very least, all entities affected by the PPP arrangement should be involved. These include the government, the auditing institutions and the legislature responsible for enacting the relevant laws and regulations, thus defining the PPP framework or even approving the PPP project itself, which may be a requirement in some countries.

Postal operators forming part of the government may benefit from the latter's existing knowledge and expertise of PPPs and may receive support from government institutions. However, it is essential that postal operators also build their own capacities, e.g. a PPP unit.

Once all requirements have been met and the framework and government entities for the PPP project are in place, implementation can begin. The figure below shows the typical steps in a PPP process or PPP project cycle, following the same structure as this guide. Although the steps are generic, they would also be valid for the implementation of an e-services PPP strategy. Postal operators with little or no experience of PPP projects may also receive guidance from government departments. In any case, postal operators just about to devise a PPP project should follow this process step by step and conduct as thorough an analysis as possible. This will help to identify any risks or pitfalls and ensure successful implementation.



Figure 6: The PPP project cycle

<b>Pre-Project Phase</b>	<ul style="list-style-type: none"> <li>– PPP Policy</li> <li>– Environment &amp; Framework</li> <li>– legal and regulatory framework</li> <li>– technical issue</li> <li>– financial and economic assessment</li> <li>– stakeholder communication and involvement</li> <li>– government commitment and institutional capacity</li> </ul>
<b>Project Identification</b>	<ul style="list-style-type: none"> <li>– Identification of suitable projects in line with the government's PPP policy (in this case for the postal sector and more specifically for e-services)</li> </ul>
<b>Project Assessment Phase</b>	<ul style="list-style-type: none"> <li>– project feasibility assessment &amp; economic viability</li> <li>– affordability &amp; bankability</li> <li>– value for money assessment</li> <li>– tariff setting &amp; subsidies</li> <li>– risk allocation</li> </ul>
<b>Project Preparation</b>	<ul style="list-style-type: none"> <li>– project plan &amp; road map</li> <li>– designing the PPP contract</li> <li>– other preparatory measures</li> </ul>
<b>Procurement Phase</b>	<ul style="list-style-type: none"> <li>– Market &amp; notifications &amp; prequalifications</li> <li>– Defining the procurement process</li> <li>– Bidding process &amp; bidding award</li> </ul>
<b>Project Implementation</b>	<ul style="list-style-type: none"> <li>– PPP project &amp; contract management</li> <li>– monitoring</li> </ul>

## 5.1 PPP identification

PPP processes entail a number of steps and phases. Postal operators must first decide which project or projects to prioritize based on their policy and strategy. This is essentially an investment decision for the relevant sector as it concerns cost, time and resources.

One of the first steps in a PPP process is thus the screening of potential projects as part of a project selection process. However, it should be noted that this screening can be conducted at different points during the process, and that different governments have set out different requirements to this end.<sup>39</sup> For example, screening can take place after a specific project has been budgeted as a public investment. In this case, the government redefines the public investment as a PPP project involving a private-sector partner, which would also have budgeting implications. In some countries a specific project appraisal must be performed in the first instance, after which point a project can be approved as a public investment. Only then can a private partner be brought on board.

In many cases, public entities draw up a list of potential PPP projects known as a PPP pipeline, both to identify potential fields of PPP activity and to help set priorities. Public entities tend to follow their overall strategy and set priorities based on the needs of the sector. For example, if the objective is to reform and restructure an entire sector, the PPP project might account for one service or piece of infrastructure in that context. In this instance the public entity would prioritize projects deemed central to the redevelopment of the sector.

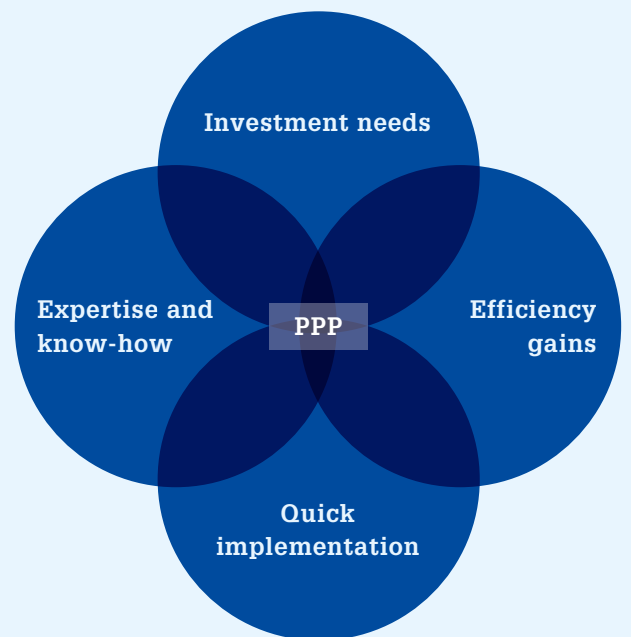
Another criterion might be the readiness of the project, which depends on the work already done and the general complexity of the project. Lastly, pragmatic considerations such as likelihood of success and attractiveness for private-sector stakeholders might also come into play.

E-services can play an important role. To decide whether to prioritize them, postal operators must develop a clear e-service strategy (as mentioned in the e-services chapter above).

## 5.2 Project suitability

Whether a project should be implemented under a PPP depends on several factors. With reference to e-services, there are a number of potential reasons to launch a PPP project which, in isolation would not be decisive, but in combination make PPPs a more attractive prospect for Posts. The figure below highlights some of these reasons, although note that other factors may also play an important role depending on circumstances and needs.

Figure 7: Decision-making factors in the identification of PPP projects



<sup>39</sup> For example, India's rules on public-private partnerships provide detailed guidelines for the identification and selection of projects as well as bidders' requirements – see [www.pppinindia.com](http://www.pppinindia.com).

Investment needs are a typical reason for choosing a PPP, not only in construction projects (highways, hospitals, etc.) requiring significant capital investment, but also in ICT projects. Initial investment in ICT projects may be less than in construction projects, but could still be significant.

Efficiency gains are another important element and postal operators may choose a PPP because they expect higher efficiency from the private-sector partner.

E-services have short life-cycles and market demands can change quickly. One of the main drivers for implementing a PPP project might be the fact that a private company has already developed a product or solution which it is able to relatively quickly implement. This would allow the postal operator to quickly enter the market with that product or solution and respond to market needs.

Postal operators often lack the necessary expertise to design, build and implement e-service solutions, especially where projects are large and complex. With enough time they might be able to develop in-house expertise, but the need to move quickly and respond to customers' demands might not afford them this luxury. PPPs can quickly provide the know-how postal operators need.

With respect to e-services in the postal sector, no service stands out as being particularly suitable or unsuitable to a PPP arrangement. Suitability depends largely on the features of the service, the particular needs (e.g. the reasons mentioned above) and other criteria, such as political or strategic considerations. However, some of the potential services under the UPU classification in Annex 2, by virtue of their various features and requirements, appear particularly well suited to PPPs.

Many services that are complex to design, build and implement and require sophisticated operating skills are certainly suitable. E-commerce marketplaces with multiple shops would probably fall under this category (see the annexed Turkish Post/EPTTAVM case study, for example). Multi-partner digital communication platforms are another example (see the annexed An Post/Escher Group case study). One additional characteristic of these systems is their active front-end. This means they are configured for public access, allow data exchange and in some cases have payment interfaces, so they must function without interruption. A breakdown, security breach or bug could have severe and negative consequences for partners (financial or otherwise, e.g. damage to the image of the postal operator or loss of credibility).

E-government services are also good candidates for PPPs. Postal operators are very strong in this area because of their proximity to government and citizens, their network and their strong trust factor. The latter characteristic in particular makes Posts ideal government partners for the provision and management of e-government services. Many postal operators have adopted an e-government strategy (see the An Post/Escher Group and Liban Post case studies in Annex 3, for example) because their governments have chosen to cooperate with a trusted partner which they own or control to some extent. Combining a postal operator's trust factor with a private company's expertise makes for a high probability of success.

Postal operators may also wish to bundle services (e.g. identity services, digital communication services, digital safe solutions), making them more valuable than in isolation. However, this can be a complex and challenging process, so bringing a private partner on board could help to quickly and efficiently advance such projects.

In conclusion, more or less all of the services listed in Annex 2 could be implemented as PPPs. However, some characteristics (e.g. complexity and high risk) make PPPs an ideal and logical choice, whereas others (e.g. simplicity and low risk) favour traditional procurement methods.

## 5.3 Project assessment

A number of governments have introduced checklists to help qualify PPP projects. These checklists can help postal operators to better address the basic questions that must be asked when considering e-services as part of a PPP strategy, namely:<sup>40</sup>

- Will the project be affordable taking into account repayment of loans as well as operating and maintenance costs?
- What are the risks and how should they be shared between the public entity and the private company (risk identification, assessment and allocation)?
- How will the project, such as an infrastructure or system, be financed? Will it be bankable and will it be attractive for potential investors?
- Does it provide value for money, or in other words, will it result in a net positive gain for society which is greater than an alternative procurement approach? Therefore, will it cost less than the best possible public sector alternative delivering the same service and results, but without involvement of a private sector partner?
- Is the project interesting for the market, that is, will there be interested private companies, investors and lenders to support the project and partner with the government?

This chapter highlights the most relevant indicators used to evaluate and select projects. It discusses the initial project feasibility assessment, economic and commercial viability and the value-for-money analysis.

### 5.3.1 Project feasibility assessment and economic viability

One of the first steps in identifying a project is to check whether it is feasible at all, that is, to analyze whether it can actually be implemented with the technologies available, whether there are any existing legal constraints preventing its implementation, and whether it complies with established environmental and social standards. Several governments have produced manuals to guide their teams through this feasibility assessment.<sup>41</sup> By using these manuals, postal operators can build on the PPP expertise already garnered by their governments.

Overall economic benefits must also be evaluated to demonstrate that the project is beneficial in view of its economic cost, that is, both its financial cost and other indirect costs such as potential damage to the environment. Note that by the same token, benefits may cover not only returns but also factors such as improvement to infrastructure or expansion of important services to wider audiences.

In the context of this guide, projects that broaden Internet access, provide the public with more means of communication (both digital and physical) and increase online shopping opportunities might correspond to government policy and thus deliver clear benefits where implemented, even if they do not cover their costs. Where financial benefits are not the main objective, the government may also, depending on its policy, be willing to co-fund e-service projects, making them economically viable.<sup>42</sup>

Economic analyses also tend to include parameters to help identify whether the means of implementing a project is more cost effective than alternatives or whether other projects could be implemented at a lower cost.<sup>43</sup>

Last but by no means least, governments and postal operators must guard against optimism bias. That is to say, they must resist the temptation to be overly optimistic about the technical feasibility, financial requirements of, and potential demand for, the infrastructure, system or service during their analyses, no matter how much they would like the project to succeed.

<sup>40</sup> See also *The Guide to Guidance - how to prepare, procure and deliver PPP projects*, p. 10, European PPP Expertise Centre (EPEC), European Investment Bank, 2011.

<sup>41</sup> For example, see *The Green Book - Appraisal and Evaluation in Central Government* at [www.gov.uk](http://www.gov.uk).

<sup>42</sup> See also the chapter on public financing above.

<sup>43</sup> Page 1 of *The Green Book – Appraisal and Evaluation in Central Government* states: “The purpose of the Green Book is to ensure that no policy, programme or project is adopted without first having the answer to these questions: 1) Are there better ways to achieve this objective? and 2) Are there better uses for these resources?”

## 5.3.2 Affordability and bankability

In addition to technical and economic viability, the identification process also analyzes affordability and bankability, i.e. the commercial viability of the project.

The main question when assessing affordability is whether the project will be able to cover its costs, including operating and maintenance costs. Interest rates and loan repayments must also be taken into account. As described above, the financial model analysis compares various financing methods to establish which financial structure best meets the requirements of the project. In an affordability analysis, the revenue and tariffs of a given product or service are studied with a view to identifying a viable commercial structure to ensure sustainability and cover costs. The establishment of tariff levels and granting of state subsidies are covered in more detail below.

The bankability analysis focuses on whether potential stakeholders will consider the project interesting and attractive enough to become partners and invest. Private companies are chiefly concerned with financial benefits, i.e. the ability of a project to yield high enough financial returns for private-sector parties to enter into the partnership and assume the associated risks. As described above, to begin with private companies must have confidence in the project, the government's PPP policy and the existing legal framework supporting it. The financial assessment focuses on returns and cash flow analysis.

Stakeholder consultation plays an important role at this stage. Governments may want to study the market potential of the project before pursuing a PPP process.<sup>44</sup> Without consulting relevant market players, this may prove difficult. Governments must therefore analyze how similar projects have been implemented, how private-sector partners were involved (including investment), and how lenders approached those projects. They may also consult with potential partners and investors as part of a market-sounding exercise, whether directly or through a consultant. Note that consultants and advisors can be instrumental, drawing on their knowledge of the market and potential stakeholders to provide a fuller picture. Their independence can also help to prevent optimism bias, a phenomenon alluded to above.

### E-services in the postal sector

Whether a project covers its costs depends largely on the demand and tariffs of the service. Market analysis and demand projections are therefore very important (see above), yet predicting demand and how much potential users are willing to pay can be difficult, especially for new services.

E-services cover a number of different service types. In the case of the licensing platform developed by An Post for the Irish government (see Annex 3), demand is relatively easy to anticipate: the number of potential licences or licence renewals can be relatively accurately predicted and a corresponding tariff established to cover costs. A completely new e-service solution in a developing country may be more difficult to plan and predict, however. Only where predictions follow a thorough analysis and points towards a profitable project will private partners be likely to come on board.

The project must also be bankable, that is, it must be able to attract lenders. Generally, a PPP project can be considered bankable if there are lenders willing to finance it. However, borrowing too much relative to assets and equity may be risky. Therefore, technical, economic and affordability analyses must provide a robust basis for a thorough calculation of financing needs. Where analyses have not been performed properly, e.g. where they lack important considerations or parameters, additional financing may be needed during project implementation or operation. Lenders in particular will want to know whether a thorough analysis has been performed to determine whether the project is economically and commercially viable. Examples of risk include: overly optimistic initial assumptions of demand and returns; too great a focus on technical aspects to the detriment of financial aspects during the assessment phase; and excessively short-term lending ultimately resulting in the need for a longer-term loan based on different lending (and thus refinancing) conditions, potentially increasing overall project costs.

<sup>44</sup> See page 53ff. of the Singaporean government's Public-Private Partnership Handbook at [www.mof.gov.sg](http://www.mof.gov.sg), which explains the purpose and processes of the market feedback period, taking at least three months, helping potential bidders to fully understand the terms and conditions of the PPP contract, and allowing the government to amend its terms and conditions, if necessary, in order to make the PPP contract more robust and viable.

### 5.3.3 Value-for-money assessment<sup>45</sup>

Many of the considerations and analyses discussed above can be integrated into a value-for-money assessment. The World Bank describes value for money as the “optimum combination of whole-of-life costs and quality (or fitness for purpose) of the good or service to meet the user’s requirements”.<sup>46</sup> Its purpose is to help governments or postal operators decide whether to implement projects under PPPs or other public procurement arrangements.

The value-for-money analysis is performed both before the project (ex-ante) and after it has been implemented (ex-post), in the first instance to determine whether it meets PPP criteria, and in the second to evaluate whether it actually achieved value for money. The ex-post analysis can also be useful for future projects of a similar nature: governments carrying out several similar PPP projects can conduct a thorough (ex-ante and ex-post) analysis of the first project and apply the findings to subsequent projects. This is common practice in a number of countries.

Value-for-money analyses involve a qualitative and a quantitative assessment.<sup>47</sup> The qualitative analysis usually takes place in the very early phases of a PPP project assessment. It determines whether the project type is suitable for a PPP arrangement and partnership with a private-sector company. Among the assessment criteria are: projected demand for the service or infrastructure; potential for effective risk allocation; ability of the private company to manage its risks; existence of adequate policies and institutions governing the PPP framework; and existence of a competitive bidding market (commercial attractiveness). The quantitative assessment (or ‘public sector comparator’) compares the value for money of a proposed PPP with other traditional procurement methods. The scope of this analysis can vary from one country to another. While some countries compare the estimated fiscal cost of a PPP solution with that of a traditional public procurement arrangement, others go a step further and also include risk, that is, they assess the risk to be borne against a PPP project, under which the risk is transferred to a private sector partner. It is also possible to include further parameters, such as socio-economic benefits.

#### E-services in the postal sector

E-service PPP projects can be driven by not only efficiency gains, but also speed. Value for money is one key parameter in the assessment process, but as mentioned in this chapter, other important elements may make PPPs the best possible choice, in spite of commercially attractive alternatives. Developing e-services in-house can take considerable time and resources and generate a number of risks, primarily due to the postal operator’s lack of expertise in that area. E-services also tend to have short life-cycles, so timing may be a crucial factor in choosing a PPP. And where private companies have already developed a suitable solution and are willing to enter into a PPP, projects can be implemented quickly with limited financial exposure for the postal operator.

A further consideration in value-for-money analyses is timing. In particular, the timing of the ex-ante analysis can be tricky, as a balance must be struck between the accuracy and availability of information. A pragmatic approach might be to conduct a qualitative analysis first and begin the quantitative assessment once enough data is available. Value-for-money analyses often span the various implementation phases to take into account new developments and data.

One must also bear in mind the shortcomings of value-for-money analyses. The importance of sound preparation, in particular thorough financial and economic assessments, to the success of any project is beyond doubt. Value-for-money analyses, on the other hand, are rarely decisive as they are largely scientific and fail to take into account certain elements of public policy. For a number of reasons (not least budgetary constraints), there may simply be no suitable alternative to PPPs, which not only enable the rapid implementation of a service or piece of infrastructure, but may also recover their costs from user tariffs rather than from the government, making them less politically sensitive. So the decision to opt for PPPs as opposed to traditional procurement methods can be more heavily influenced by political or social factors than by value-for-money considerations.

<sup>45</sup> For a thorough analysis and discussion of this topic, see *Value-for-Money Analysis-Practices and Challenges: How Governments Choose When to Use PPP to Deliver Public Infrastructure and Services*, World Bank, 2013

<sup>46</sup> *Value-for-Money Analysis-Practices and Challenges: How Governments Choose When to Use PPP to Deliver Public Infrastructure and Services*, p. 9, World Bank, 2013

<sup>47</sup> *Value-for-Money Analysis-Practices and Challenges: How Governments Choose When to Use PPP to Deliver Public Infrastructure and Services*, p. 13ff., World Bank, 2013

## 5.3.4 Tariff-setting

Tariff-setting is an important element in the economic and financial viability assessment of PPP projects. Tariffs are used to pay back loans and cover operating costs. When setting tariffs, equal consideration must be given to the willingness of users to pay those tariffs, the potential for the private company to cover its costs and earn a return on its investment, and the possible need for subsidies.

Analyzing cost and revenue (essentially the tariffs charged for using the infrastructure or service) is key to the commercial viability of the project. It also incentivizes the private company to be more efficient. However, private-sector partners must have a reasonable chance of covering their costs and making a profit. To this end, private companies calculate all costs associated with a project – including maintenance, expansion and replacement of assets – and determine the tariff levels needed to cover them.

This can be a complex process since governments services are often based on fairness and affordability to prevent the exclusion of low-income users. As a result, the potential need for subsidies must be taken into account during tariff-setting. Moreover, tariffs must be simple and comprehensible for users.

Since PPP projects are intended to last for a relatively long time, tariff adjustment mechanisms should also be put in place. Adjustments must be made when economic factors (such as inflation and exchange rates) change, or where the infrastructure or materials on which the service relies become more expensive.

One way of dealing with adjustments is the cost-plus or rate-of-return pricing method, under which the private company covers all costs (including investment and operating costs) and adjusts its tariffs where economic parameters change, but only once the regulatory body has reviewed and approved the proposed change.

Another method is revenue or price-cap regulation, which gives the private company a little more leeway. Under this arrangement, the company can revise its tariff structure in line with indicators such as an inflation rate index. The advantage over the cost-plus method is that the private company can increase its profits by being more efficient. A set of rules governs the frequency of such adjustments, linking them to specific parameters. For instance, costs could be passed on directly to users, or tariffs could be linked to quality standards or other elements. It may also be possible to schedule and compare tariffs with specified indices (inflation, consumer price index or a basket of goods most relevant to the specific services to be provided by the project).

## 5.3.5 Subsidies

Subsidies can be granted for a variety of reasons. However, governments will only be prepared to grant subsidies where the cost of doing so is below the cost of implementing and delivering the service itself.

In most cases the aim is to make a project commercially viable where analyses reveal that it would be not be without subsidies. This may be the case where tariffs do not cover costs but cannot be further increased for fear of a negative impact on users and demand. Subsidies can be general or specific, e.g. incentives for specific results, such as quality achievements or extension of a service to underprivileged user groups (e.g. low-income segments of the population).

Depending on the objective, different types of subsidy are feasible. Cash subsidies are direct payments made by public entities to private companies either to partially cover investment or in return for specific deliverables, thus incentivizing private players to implement services important to government policy. In the context of this guide, examples of such deliverables might include access to communication tools or the expansion of digital services to rural areas or low-income segments of the population.

The Myanmar and the Papua New Guinea and Solomon Islands case studies in Annex 3 are examples of where governments have decided to broaden access to ICT services. Such objectives could be at least partially met by postal operators, provided an economic viability analysis demonstrated that user fees could cover costs. If user fees were insufficient and the government still wished to pursue its objective, it would probably need to subsidize the service.

Providing access to cheaper loans is another form of subsidy that reduces the overall cost of a project. Governments can do this by passing on their favourable borrowing conditions to private companies. Other types of subsidy include in-kind grants (of land or other assets) and tax exemptions for the relevant service.

## 5.3.6 Risk allocation<sup>48</sup>

A list of potential risks with descriptions (risk register) should be drawn up. While a number of different risks can arise during PPP projects, some are more common depending on the sector, country or environment.

Risk categories might include:<sup>49</sup>

- site: risks related to site acquisition, permits or environmental requirements (in the context of e-services this could be the installation of antennas or other ICT infrastructure);
- design: initial designs may need to be amended to clarify certain parameters;
- operation and cost: project operation and maintenance may be more expensive than calculated, e.g. where certain elements do not work properly or maintenance is more complex than anticipated (in this context the typically short life-cycle of e-services must be taken into account);
- demand: overestimation of demand during tariff-setting, leading to lower returns than expected;
- political: in some countries political changes may adversely affect PPP projects, e.g. where a newly elected government is opposed to a PPP project or withholds certain approvals for political reasons;
- regulatory: regulatory bodies can exert a degree of control over PPP projects and services, potentially withholding approval of tariff increases, even if they featured in the initial project plan (since postal-sector regulation is broad and far-reaching in some countries, the potential involvement and rights of regulatory bodies must be thoroughly analyzed);
- legal and fiscal: law changes and tax increases can influence the infrastructure, systems and services provided under PPP projects;
- economic: interest, exchange and inflation rates can affect projects, especially where private partners come from another country;
- default: the public entity must account for the risk of the private company getting into financial or other difficulties, e.g. bankruptcy or technical issues;
- force majeure: unpredictable events beyond the control of the parties (natural disasters, war, etc.) can severely affect projects and partnerships.

It is important to evaluate and prioritize these risks, taking into account both the likelihood of their occurrence and their potential impact.

The transfer of risk to private companies is a critical component of PPPs. Once risks have been identified, they must be allocated. The parties must decide which risks should be borne by whom. Risk allocation also incentivizes private companies to minimize risk and hence competently manage projects.

As a principle, each risk should be allocated to the party best able to manage it, based on their ability to control the likelihood of the risk occurring, to mitigate its impact on the project, and to manage the risk if it does occur, at the lowest possible cost.

It is important to find the right balance. It would make no sense to transfer all risks to the private party because, firstly, it might not be best placed to handle certain types of risk and, secondly, this would increase cost for the public sector as the private party would expect higher returns (risk premium). In addition, some types of risk (those of a political nature, for example) cannot be transferred under PPP contracts. At best, the stakeholders can insure against these. Risk insurance is a typical way of dealing with certain project- or sector-specific risks.

Risk assessment and allocation are key elements of any PPP and must be dealt with in the project contract.

<sup>48</sup> For a detailed discussion on risks, see *Government Guarantees: Allocating and Valuing Risk in Privately Financed Infrastructure Projects*, Timothy C. Irwin, World Bank, 2007

<sup>49</sup> See *Public-Private Partnerships Reference Guide*, version 2.0, p. 147f., World Bank, 2014



- 6. PPP project preparation**
- 6.1 Project plan and road map
- 6.2 Drafting (designing) the PPP contract

## 6. PPP project preparation

Once a policy is in place and potential projects have been identified, the public entity can start to focus on project implementation, which will include thorough preparation for a procurement phase and bidding process.

### 6.1 Project plan and road map

One of the first steps in a PPP project is to produce a detailed project plan with a road map and timetable. The plan must take into account the consultation process with stakeholders, the development of documentation and contracts, the procurement and bidding process and necessary approval processes. Some aspects will inevitably be clearer than others during these processes, so more details can be incorporated into the plan at a later stage. It might also be necessary to revise the plan to take into account new developments or problems arising during the procurement or implementation phases.

### 6.2 Drafting (designing) the PPP contract

Partnerships are governed by a set of different agreements<sup>50</sup> covering the relationship between the various stakeholders, their rights and obligations. At the heart of these agreements is the PPP contract which governs the relationship between the public entity and the private-sector company. Other agreements (including shareholder agreements) concern the relationship between, for example, the private company and other partners providing assets or equity, or the contractual relationship between the private party and lenders.

The PPP contract is of particular importance when potential partners are invited to bid and submit proposals. It gives them a degree of clarity and certainty, explaining how the government plans to implement the project and how risks and responsibilities are shared. It may be possible to revise the agreement following negotiations with bidders, depending on the terms and conditions under which the government runs the process.

The design and drafting process is influenced by the postal operator's policy and strategy as well as the analysis described in the chapters above. It thus includes the evaluation and assessment findings and sets the rules governing the contractual relationship between the public entity and the future private-sector partner. This section highlights the cornerstones of the contract, referring to previous chapters where topics have been dealt with in more detail.

<sup>50</sup> See the standardized model agreements developed by the governments of New Zealand at [www.treasury.govt.nz](http://www.treasury.govt.nz) and South Africa at [intellect-ht.com](http://intellect-ht.com), for example.

## 6.2.1 Performance requirements

The private company needs to know the expectations of the postal operator and the objectives and deliverables of the PPP. These include the infrastructure, solution or service and any applicable standards (e.g. quality-of-service standards).

The public entity or postal operator defines its expectations in terms of output rather than input. How the private company implements the project in technical terms may be less relevant than the outcome, that is, the service implemented and the quality standards achieved. This leaves technical considerations to the private sector and promotes innovation and competition between private-sector bidders. For example, how the private company designs and builds an e-commerce marketplace or communications platform may be less important than what that service or solution actually does, what its functionalities and features are, and how it interacts with users.

Therefore, contracts should clearly define both the required output and any performance targets, which the World Bank states should be specific, measurable, achievable, realistic, and timely (“SMART”).<sup>51</sup> Contracts must also cover performance monitoring, including how this is done, by whom, and who deals with the respective information, e.g. a regulatory body. Finally, an emphasis should be laid on potential failures, including a regulator’s right to prescribe penalties, what mechanism is used in this context, and what this means for the future of the PPP. In extreme cases, the public entity may even step in and take over the contract. This can happen where the private company fails to perform and the infrastructure or service is threatened, or where problems arise for which the public entity is better equipped than the private company, such as health or safety concerns. In an e-service context health issues may be less relevant, but there are other areas where the postal operator may better able to address a specific risk, e.g. system front-end issues necessitating communication or contact with users. In any case, potential risks and failures must be analyzed on a case-by-case basis.

## 6.2.2 Payment mechanisms

Contracts must contain clear rules and explanations of how the private company will be remunerated. As described in the chapter on tariff-setting and subsidies, it must be established how and under what circumstances tariffs can be adjusted. In this context, consideration must also be given to possible subsidies and government payment mechanisms, including any rules on bonuses or penalties for achieving or failing to achieve service standards or targets, where applicable.

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51 How to Engage with the Private Sector in Public-Private Partnerships in Emerging Markets, p. 36, PPIAF and World Bank, 2011

## 6.2.3 Dispute resolution

Contracts must set out rules for potential disputes. Given that PPP contracts are long-term agreements, the circumstances and environment of the project and the objectives and capabilities of the parties can obviously change. This can lead to disputes and, unless the national law governing the PPP lays down clear rules on dispute resolution, the contract must address this issue. Depending on the contract scope/size and the specific contract requirements, different dispute resolution mechanisms can be applied.

In the first instance, a mediator can help to identify a solution together with the parties. Reaching an agreement at this stage would prevent the need for formal proceedings, helping to maintain a good relationship and saving both time and money.

Regulators can also be involved depending on the subject matter of the dispute. This will only be acceptable to the private company where the independence of the regulator is beyond doubt. If not, this would entail a risk for the private company.

Disputes can also be brought before regular courts. Whether courts are an acceptable solution for the parties will depend on several factors, such as length of proceedings and independence and reliability of the judicial system. This may be problematic in some countries, e.g. where court proceedings take a long time. Another consideration in this context is whether domestic courts have the technical expertise to deal with potentially complex and highly technical aspects of PPP projects in the areas of infrastructure and new technology. The use of the domestic language in court proceedings may also be a disadvantage in international PPPs.

One fairly common way of resolving disputes under PPP projects is arbitration, whereby a panel of experts act as arbitrators. Typically, each party appoints an arbitrator and the two arbitrators then choose a third. Alternatively the parties can name arbitrators in the contract. Another approach is to resort to an international arbitration tribunal, hosted by a permanent arbitration institution. These institutions can deal with issues within a specified timeframe and provide the expertise to deal with the complexity of the relevant subject matter.

The approaches described above can also be combined. For example, it is possible to set out a step-by-step approach, starting with mediation and progressing to arbitration if no resolution is found.

### E-services in the postal sector

Disputes can occur in any contractual relationship, and a good partnership depends on the parties establishing clear rules on how to deal with them. Different disputes can arise in different types of PPP. In e-service projects, they could result from missing rules; differing interpretations of system updates; the need to upgrade systems earlier than expected, possibly due to the short life-cycle of e-service solutions; or lower demand than initially forecast, resulting in lower revenue and a potential inability to cover costs or pay back loans.

Therefore, potential risks and responsibilities must be thoroughly analyzed and, in the event of a dispute, clear rules must be established to effectively and efficiently deal with the matter. For example, if an e-commerce marketplace is shut down due to a dispute between the postal operator and the private company that built it, the financial impact and damage to image and credibility could be devastating for both parties.

## 6.2.4 Termination clause

PPP contracts are usually concluded for a definite term. However, termination can also be linked to a specified event, such as reaching a certain level of turnover or number of users.<sup>52</sup>

In any case, PPP contracts must specify under what circumstances the agreement is terminated, how the assets and operations are assessed and transferred to the postal operator, whether the postal operator pays for the assets, and how that payment is calculated. It is also important to define in what condition the assets should be handed back to the postal operator, where applicable.

In addition to expiry, contracts must cover early termination. In essence, there are four scenarios that could trigger early termination, namely default by the private company, default by the public entity/postal operator, a decision taken by the public entity, or prolonged force majeure. Obviously these situations can be very sensitive, so it is important that the parties clearly define the circumstances under which early termination applies. Defaults would probably have to be significant to trigger a termination clause. Typically, if after receiving notification the defaulting party does not remedy the situation within a specified period, the non-defaulting party may terminate the contract. However, defaults must be analyzed case-by-case with respect to the rules of the agreement. Typically the private party must have significantly breached the contract in failing to provide the services as agreed, or the public entity/postal operator must have failed to fulfil its responsibilities, e.g. non-payment of contractually agreed sums to the private company.

## 7. Defining the procurement process

The procurement process can be split into three phases:

- 1 the pre-bidding process;
- 2 the bidding process; and
- 3 the selection process.

Figure 8 shows the typical steps in the procurement process, which are explained below in more detail. This process should ideally be followed to guarantee transparent and fair procedures and ensure the selection of the best possible private partner. However, the size and scope of the PPP project may also influence the procurement process, unless there are clear government rules that the postal operator must follow.

Figure 8: Structure of the procurement process

<b>Defining the procurement process</b>
<b>Public notification</b>
<ul style="list-style-type: none"> <li>– Bid conference</li> <li>– Pre-bid document consultation and feedback</li> </ul>
<b>Marketing the PPP project</b>
<ul style="list-style-type: none"> <li>– Information packages (contract and other procurement documents) and road shows</li> <li>– Advertising</li> </ul>
<b>Qualification criteria and pre-selection of bidders (shortlist)</b>
<b>Bidding process</b>
<ul style="list-style-type: none"> <li>– Single- or multi-step process</li> <li>– Interaction and negotiations with bidders</li> <li>– Evaluation of bids</li> <li>– Negotiations and award</li> </ul>
<b>Signing of contracts and project implementation</b>
<b>Monitoring and reporting requirements</b>

<sup>52</sup> For a thorough discussion on contract termination, rules on specific termination events and payment see The Guide to Guidance – how to prepare, procure and deliver PPP projects, p. 40f., European PPP Expertise Centre (EPEC), European Investment Bank, 2011.

## 7.1 The pre-bidding process

The procurement or bidding process entails the selection of the most suitable private company and solution for attaining the project objectives, following the identification and analysis of the project, in particular its commercial viability.

First, the postal operator must decide on a few parameters to govern the procurement process. These might include the establishment of specific qualification criteria, the bidding process itself, the option to negotiate with bidders and the basis on which the partner is chosen.

It must be borne in mind that governments can have stringent rules governing and meticulously setting out the procurement process. In these cases the process framework will be defined by general laws or regulations. This will mean a less flexible PPP project on the one hand, but a clearer and more transparent process on the other.

Before potential bidders are invited to submit their proposals, or at the beginning of the bidding process, it might be advisable to invite all interested parties to ask questions or make comments on the draft bidding documents. This can be done in two ways: either all stakeholders can be invited to a meeting (bid conference), giving the postal operator a general impression of the private sector's interest in the project and potentially revealing issues not yet dealt with in the documents; or the draft documents can be submitted to interested parties for questions or comments, to which the postal operator can then respond. This should be done transparently, i.e. answers should be addressed not only to the party that raised the question, but to all stakeholders.

Before launching the tender it might also be wise to market the PPP project, which can help to attract private-sector companies. Projects can be announced in official gazettes (occasionally a legal requirement anyway) or advertised more broadly, e.g. in sector-specific journals. Roadshows, such as those launched in conjunction with privatization processes, can also be used to present projects. Clearly these actions will depend on the scope and size of the project: a large-scale e-service solution requiring substantial investment and intended as an important pillar of the postal operator's service portfolio might merit further investment in advertising to attract more interest from the private sector.

Bidding qualification criteria are sometimes established in order to limit the number of bidders and focus on those that might have the best chances of success. It can also incentivize private companies to engage and invest more up-front in order to meet criteria. Generally, there are two options. First, public entities could define the criteria and select a predefined number of bidders best meeting requirements.<sup>53</sup> This is basically a ranking exercise where the top-ranking bidders are invited to submit an offer. Second, Posts could establish clear criteria that bidders must meet to be admitted to the bidding process. This option does not limit the number of bidders.

It should be noted that while such qualification criteria may have the advantage of limiting the number of bidders, thereby narrowing the focus to those with the best chances of successfully implementing the project, several countries, in particular developing countries, face the opposite problem of not being able to attract enough bidders. Note also that domestic legislation can sometimes preclude the use of qualification criteria.

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53 For example, see National Public Private Partnership Guidelines, Volume 2: Practitioners' Guide, p. 16 Infrastructure Australia, 2011 at [infrastructureaustralia.gov.au](http://infrastructureaustralia.gov.au). The guide explains how to shortlist bidders and recommends selecting three to ensure adequate competition. More than three is considered disadvantageous, as potential bidders might lose interest due to the low chances of success versus the significant investment.

## 7.2 The bidding process

The bidding process itself can consist of one or more stages. Under a one-stage approach, private companies are invited to submit their proposals, including their technical offer and financing solution, and the most suitable bidder is chosen according to the award criteria. Under a multi-stage approach (which can be advantageous in complex projects), bidders are first invited to respond to the invitation-to-bid and provide important information on subjects such as technical implementation or feasibility. This may lead to in-depth discussions between the postal operator and the private company, culminating in the revision of the contract to include, for example, new and innovative methods of implementing the project. This can help to identify better solutions for the infrastructure, system or service provided by the PPP project.

This procedure must be distinguished from a competitive negotiation process,<sup>54</sup> which is based on negotiations with a selected group of companies that are invited to submit proposals. Multi-stage bidding processes may be quicker and less expensive than competitive bidding processes, but they are also less transparent and can exclude companies potentially able to provide better solutions and submit strong proposals.

Nevertheless, negotiation with bidders is quite common during multi-stage bidding processes and, as mentioned above, can serve as a basis for revising contracts and refining and improving project outlooks. Negotiation is also possible after a contract has been awarded to a bidder. But such negotiations are intended only to fine-tune the contract and project and have no bearing on procurement. For example, post-bidding negotiations cannot change a fundamental aspect of the risk allocation.

## 7.3 Selection process

Selecting the preferred bidder is one of the key milestones of the procurement process, so criteria must be very clear. Again, a two-step procedure can be followed, in which case the technical proposals would be evaluated first. Among the bidders that fulfil the technical requirements and can prove their technical capacity to implement the project, the bidder with the best financial proposal will be selected. It is also possible to take a one-step approach, under which the bidder would be selected based on a weighting of the financial and technical proposal. In such cases it may prove difficult to decide on the weighting criteria, which must be clear and transparent. How the postal operator decides depends on both the project characteristics and the government's ability to evaluate complex project proposals.

Occasionally unsolicited proposals are also made. Public entities are advised to carefully deal with these in accordance with specific rules to avoid problems later on. Unsolicited proposals are submitted by private companies interested in becoming partners, and set out the details of how they propose to implement the PPP project. This is generally useful, as it allows governments to glean ideas that might help it to develop its public policy objectives. It may be tempting to accept such proposals on the grounds of speed and avoidance of procurement costs, but the disadvantages far outweigh the potential advantages. Processes of this kind lack transparency, may invite corruption and may not even be the most effective and efficient way of implementing the project. Instead of negotiating or concluding a PPP agreement with private companies on this basis, public entities could buy the project concept and open it up to other private companies as part of a PPP procurement process, or pay the private company some kind of fee or commission after the project has been awarded to another company through a bidding process.

In the context of this guide, it is quite possible that a private company might approach a postal operator with an idea or a proposal to implement an e-service solution (e.g. a digital communication platform, an e-commerce marketplace or an e-government service). Any such private company would have an advantage over other potential service providers given that it came up with the proposal, but the postal operator would need to analyze in depth whether it wished to partner immediately or follow the procedures described above, i.e. solicit further offers.

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54 For more information on competitive negotiations, see the Public Private Partnership Handbook, p. 73, Asian Development Bank.

## 8. Monitoring and managing PPP contracts

PPP contracts are long-term agreements. During the contract term, the postal operator must be certain that the services under the PPP contract are provided as agreed, that risk allocation and responsibilities are commensurate with the contract environment, and that, should the environment change, adaptive measures can be taken.

To this end, it is essential to establish appropriate institutions and mechanisms, e.g. PPP units, which are discussed in more detail above.<sup>55</sup> Where there is no PPP unit, a special contract monitoring unit can be created. In any case, the responsible body would be tasked with monitoring the contract, in particular the performance thereof. The rules governing this task (e.g. targets, measurement procedures and reporting requirements) must be included in the contract. Other rules potentially covered in the contract might govern the setting and revision of tariffs, or penalties for non-performance or non-attainment of targets. In some cases, monitoring is performed by a specially designated or sector regulator. Independent auditors can also be employed to monitor PPP projects and contract performance, whether alone or in tandem with PPP units. Either way, their presence would help to make the monitoring process and its results more objective.

Due to the typically short life-cycle of e-services, the various functionalities of the solution may need to be checked regularly to determine whether they still respond to market needs, especially given how quickly consumer behaviour and ICT develops in this domain.

## Recommendations

This guide focuses on the implementation of e-services in the postal sector under public-private partnerships. The following recommendations are intended to highlight basic requirements and suggest specific measures or actions that must be taken to guarantee the successful implementation of a PPP project. It should be noted that some of the requirements can be met by postal operators, while others call for a broader government policy and legal framework.

- 1 Although e-services are becoming increasingly relevant in the postal sector, postal operators must analyze and evaluate which services they want to implement. The list of potential e-services is long (see Annex 1), so postal operators must (1) develop an e-service strategy; (2) identify services according to their capabilities and market requirements; and (3) prioritize the services they wish to implement.
- 2 Before implementing a PPP strategy postal operators must analyze the legal and political framework of their country. If domestic law prohibits or allows only a specific form of PPPs, or if there are other obstacles to using them as a means of implementing e-services, the postal operator and the government should jointly determine whether and how the appropriate political and legal framework can be put in place. Without an adequate policy or legal framework, traditional procurement or other forms of financing should be chosen.
- 3 It is essential to analyze not only the postal sector in general, but also the more specific area in which the PPP project is to be implemented. A thorough analysis of the market environment (including other sectors offering similar services), regulatory issues, the technical context and the financial and economic framework must also be conducted. Only with a sound understanding of these elements can decisions be made on potential PPP projects and processes.
- 4 The various financing options must be analyzed and evaluated: PPPs are not always the best option. Ask yourself the following questions: (1) are there better ways to achieve the objective?; and (2) are there better uses for the available resources?
- 5 Depending on the desired parameters – including investment needs, proposed PPP contract term, responsibilities, risk allocation and the various other elements discussed in this guide – one PPP model may be more advantageous than another. An analysis must be conducted to determine which PPP model best fits the e-service strategy and project requirements.

55 See chapter on government commitment and institutional capacity.

- 6 Equally important are institutional and organizational instruments. The postal operator should create a PPP unit to serve as a point of contact, manage PPP contracts, aid and support the implementation process and monitor ongoing projects. Only with the appropriate organizational capacity, knowledge and expertise can pitfalls be avoided. This way, private companies will also find it easier to approach postal operators and present their ideas and projects.
- 7 A clear business and project plan and a road map are key requirements. Postal operators should have a clear understanding of the different project phases and milestones and the actions that need to be taken during the various project phases.
- 8 Stakeholder management is a very important success factor. PPP projects can be sensitive and controversial, in particular in the postal sector which is often considered a public service, and stakeholders may not approve of private involvement. Those stakeholders must be convinced, managed and involved.
- 9 Transparency is vital to convince all stakeholders that the various PPP processes (project development, procurement process, etc.) are unbiased, correctly handled and trustworthy.
- 10 A thorough analysis of risks and potential pitfalls must be conducted. Prepare for undesired events and include them in the project plan.
- 11 The postal operator must identify feasible projects and assess their economic viability, affordability, bankability, sustainability and value for money. Revenue generation through the project should also be analyzed: how will the service be paid for (users, government subsidies, etc.); and how should tariffs be set to strike a balance between covering costs, making profit and keeping demand high?
- 12 When designing the PPP contract, the above criteria must be taken into account and the terms and conditions of the partnership clarified. As with any agreement, PPP contracts should also cover undesired events and their potential repercussions, e.g. early termination or tariff changes, and provide for an appropriate response, including the possible amendment of the contract.
- 13 Before finalizing the PPP contract, it may be wise to roll out a pre-bidding procedure to allow potential bidders to review the draft documents and get a better idea of the project and its conditions, and the postal operator to amend the contract conditions where necessary (e.g. where it becomes obvious that some of the draft conditions would substantially limit the participation of potential bidders).
- 14 It may also be helpful to follow a multi-step process and create bidder shortlists to give the highest ranked bidders the chance to refine their proposals and provide more details. It should be noted that the laws of some countries contain specific rules on pre-qualification criteria and shortlists.
- 15 Monitoring and managing PPP contracts are as important as the steps taken to implement the project. These tasks could be performed by a PPP unit or other body established by the postal operator.



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## Annex 1 – Checklists

### Checklist 1 – PPP project preparation

- Does the legal, regulatory and market environment allow the implementation of a PPP project?
- Are all governance structures in place and is the postal operator committed to pursuing the implementation of a PPP project?
- Can the costs of the project preparation and procurement process be covered?
- Are the organizational capabilities in place, such as a PPP unit, and do the people involved have the required knowledge, expertise and training?
- Are the appropriate advisors on board and prepared to assist during the procurement and implementation phases?
- Is the road map agreed and realistic?
- Have all relevant stakeholders, including the general public, been identified and is a communication strategy in place?
- Have the scope and size of the PPP project been agreed?
- Is there a common understanding concerning the type and model of the PPP?
- Has a thorough assessment (feasibility, economic viability, affordability and bankability) been carried out?
- Has the value-for-money assessment been carried out?
- Have all risks been identified and thoroughly analyzed?
- Has revenue been properly analyzed, and have tariffs and tariff-setting procedures been agreed? Are tariff levels realistic and market oriented?
- Will there be enough interest from the private sector, i.e. the private companies intended to implement and/or operate the system and the banks potentially providing loans?
- Has the procurement model and structure been agreed?
- Have bidder qualification criteria been prepared?
- Has the draft PPP contract been designed and drawn up, and does it include all required contract elements (in particular responsibilities, output criteria, risk-sharing, payment conditions, penalties, termination, etc.)?

### Checklist 2 – Procurement process and project implementation

- Has the procurement process been agreed and made available to potential bidders?
- Does this information include all possible interactions with bidders and their conditions, such as a code of conduct, communication and transparency rules, meetings, access to the data room, etc.?
- Are measures in place to guarantee the full transparency of all processes, in particular bidder evaluation and contract award?
- Is the invitation to tender ready and does it contain all relevant information enabling bidders to enter the procurement process with full knowledge of output requirements, contract terms, procurement process, etc.?
- Does the procurement documentation already contain the PPP contract with all its relevant elements (responsibilities, output criteria, risk-sharing, payment conditions, penalties, termination, etc.)?
- Is a negotiation strategy in place and do the people leading negotiations with bidders possess the skills and experience required?
- Negotiations with bidders and in particular the final bidder may result in changes to the PPP contract. Is the PPP contract still in line with the output requirements and predefined conditions? Does it still fulfil the requirements of financial viability, bankability and value for money, and is tariff-setting still in line with market needs and demands?
- Are these PPP contract amendments materially changing the PPP contract (which might lead to the contract and project award being challenged by unsuccessful bidders)?
- After project award, is a management team (e.g. PPP unit) in place and responsible for cooperation with the private partner?
- Are there clear guidelines for the project management team or unit and do they have the expertise to deal with project evaluation and negotiate changes to the partnership, including tariff-setting?
- Have rules been established on contract monitoring and reporting?
- Are risks regularly re-evaluated?
- Is value for money re-evaluated on a regular basis?
- Is a communication strategy in place during the PPP period, e.g. towards the public (transparency), users, government, etc.?
- Are there clear rules on the termination of the agreement and the various processes, e.g. transfer of ownership, and payments?

## Annex 2 – Postal e-services according to UPU research

### E-post and e-government services

Code	Service	Service description
101	Postal electronic mailbox	Enables the sending of electronic messages by an authenticated mailer, delivery to the authenticated addressee, and access, management and storage of electronic messages and information for the authenticated addressee. Defined in article 17 of the UPU Convention and article RL 265 of the Letter Post Regulations.
102	Online direct mail	Delivery of advertising and/or other promotional communications by the Post via electronic means.
103	Postal registered electronic mail	Provides secure and trusted exchange of electronic messages, enabling the sending of electronic messages by an authenticated mailer for delivery to an authenticated addressee or addressees with proof of sending and proof of delivery. Defined in article 17 of the UPU Convention and article RL 264 of the Letter Post Regulations.
104	E-cards	Provides the ability to buy a postcard online, which is then delivered to recipients by physical or electronic means.
105	Online bureaufax	Permits the transmission of texts and illustrations true to the original by fax, as defined in article 17 of the UPU Convention and article RL 261 of the Letter Post Regulations.
106	E-invoicing	A service supporting the delivery of electronic invoices, e.g., from banks, utilities or government agencies, into customers' postal electronic mailboxes.
107	Hybrid mail	Enables the sender to post an original message in either physical or electronic form, which is then electronically processed and converted into a physical or electronic message for delivery to the addressee. Defined in article 17 of the UPU Convention and article RL 260 of the Letter Post Regulations. Also includes services such as "transactional printing" offered to large enterprises.
108	Reverse hybrid mail	Enables customers to send an original physical message, which is converted into an electronic form for delivery to the addressee. Defined in article RL 260 of the Letter Post Regulations.
109	Online facilitation of hybrid mail	Allows small mailers to access, through the Post's website, one-stop-shop services relating to the design, preparation, printing and sending of their direct mail campaigns, or transactional mailings.

Code	Service	Service description
110	Electronic postal certification mark	Provides a chain of evidence, stored by a designated operator as a trusted third party, to prove the existence of an electronic event, for a certain content, at a certain date and time, and involving one or more identified parties. Defined in article 17 of the UPU Convention and article RL 263 of the Letter Post Regulations. UPU functional specification standard S43 supports this service.
111	Digital signature	A digital analogue of a physical, written signature based on an algorithm whereby the identity of the signer and the integrity of the data can be verified. The Post legally identifies a customer and provides him/her with the ability to digitally sign an electronic document or a message. The digital signature uses cryptography to guarantee the identity of the sender (authentication) and ensure that the message was not altered in transit (integrity), and prevents the sender from denying having sent the message (non-repudiation).
112	Digital identity services	The Post issues a digital identity legally identifying its customers. The digital identity can be secured with a simple electronic authentication using a password, or with more secure authentication technologies based on cryptography and public key infrastructure.
113	Credentialing services	The ability for a customer to use a digital name and password on another system and receive third-party validation of their digital identity. For example, a customer with a digital identity issued by the Post logs into their banking system to transact business. The bank electronically requests validation of the digital identity from the issuing Post, which issues the bank with a token representing the validation of that digital identity.
114	Digital archive	The Post converts physical documents and data and stores them in legally compliant and legally verifiable electronic archives (e-archives), using industry standards (e.g., OAIS ISO 14721:2003). The management of a digital archive entails the development, structuring, set-up and operation of a complete digital archiving process on the basis of recognized industry standards.
115	E-health	Enables customers (patients and caregivers) to access and manage personal medical information (certification, fees, account management).
116	E-administration: online ordering/ applications/registrations	Customers can apply for/order/register official documents through the postal website (e.g. passport, driving licences, university registration).

## E-commerce services

Code	Service	Service description
201	Online philatelic and postal products shop	Customers can purchase philatelic and postal products through the postal website and have them delivered to a physical address.
202	Online postal shopping portal (or shopping mall)	Postal website or web portal showcasing goods from a variety of merchants. Merchants' websites are often integrated with the Post's website.
203	Online customs declaration	Customers can provide the necessary information (CN 22, CN 23, CP 72) through the postal website to the relevant authority before importing or exporting an item.
204	Integration of postal web services with merchants' sites	Provides e-merchants with software tools (such as APIs – application programming interfaces) to allow for the integration of the Post's online shipping and tracking capabilities with their e-commerce applications.
205	Performance reports and analytics	The Post provides e-merchants with customized performance reports (e.g., on returns, delays, delivery times) to help them manage costs, operations and customer experience.
206	Virtual international address	The Post provides an international physical address in another country to allow customers to easily purchase goods from that country's e merchants, and have them forwarded through the post.
207	Calculation of estimated total landed costs	As part of the online purchasing process, provides online shoppers with detailed information on all the costs associated with the delivery of documents/merchandise.
208	Online management of documents/merchandise delivery options	Enables customers to notify the Post electronically (e.g., via apps, web, etc.) where document/merchandise items should be delivered (e.g., parcel lockers, home, local retailer, etc.).

## E-finance and payment solutions

Code	Service	Service description
301	Online account management	Enables customers to electronically manage their financial postal account and carry out related account operations.
302	Electronic remittances	A service allowing money to be sent (cash to cash or account to account) to a recipient through an electronic network.
303	Online bill payment	A service allowing bill payments via the Post's website, entailing development of a specialized online payment system.
304	Payment solutions	A service providing an online shop accepting electronic payments by a variety of payment methods through a single payment gateway.
305	Escrow services for e-commerce	A service providing a secure payment solution that collects, holds and disburses funds linking the customer's payment of goods purchased online to the delivery of their parcel.

## Support services

Code	Service	Service description
401	Public Internet access point in post offices	Customers can access Internet services in post offices.
402	Online information on services and tariffs	Customers can access information about the different services and products, as well as the corresponding tariffs, on the Post's website, app, etc.
403	Online lookup (post-codes, addresses, post offices)	Enables customers to search for a post office or postcode, or to validate an address online by entering information such as the street, the city or postcode, or the entire address.
404	Online contact and customer service	Allows customers to contact the Post electronically for a service or information, via a website, app, social media, e-mail or telephone.
405	Track and trace	Enables customers to electronically track and trace a postal item.
406	Electronic notification	The Post notifies a sender/recipient electronically (e.g., by SMS, e-mail or social media) that documents/merchandise items have been delivered or need to be collected at a specific address (parcel locker, home, local retailer, etc.).
407	Online change of address	Enables customers to change their mailing address electronically, including through an Internet portal or app.
408	Holding of mail delivery online	Enables customers to request, by e-mail or online application, the suspension of mail deliveries to their address and the holding of their mail for a period of time.
409	Online address cleansing services	Enables small business mailers to electronically validate their list of addresses by uploading them to the Post's website.
410	Electronic postal invoicing	A service whereby customers receive an electronic invoice for their use of Post's services and products.
411	Digital postage	Enables customers to electronically order, pay and download postage for documents or merchandise through the Post's website, smartphone application or SMS. Postage can be printed physically (e.g., shipping labels), or provided by a number code or key.
412	Digital personalized postage	Enables customers to electronically order, pay and download personalized or customized postage for documents or merchandise through the Post's website, a smartphone application or a partner's website. The user can upload a photograph or select one from a bank of images proposed by the Post.
413	Pick-up service	Enables customers to arrange collection of items through the Post's website, smartphone application or SMS.



## Annex 3 – PPP case studies

### Case study 1: Myanmar-telecommunications project

Development of ICT-related services is most relevant in countries where large parts of the population have limited access to telecommunication services. In 2013, the mobile subscriber penetration rate in Myanmar was estimated at around 11%. Myanmar decided to increase the availability, affordability and quality of telecoms services throughout the entire country, thus helping to increase sustainable socio-economic growth and reduce poverty. The proposed project was geared towards providing people in remote areas with access to market information relevant to them, thereby increasing their mobility and enabling them to identify opportunities. It also aimed to bridge the digital gender gap through education, promotion, and employment, and to increase women's access to mobile and Internet services. According to estimates, a 10% increase in mobile penetration would raise gross domestic product by 1.2%.

This case is particularly relevant in a postal context as it concerns services that are part of the postal e-service portfolio. Postal operators have a physical presence and connect people and businesses. ICT developments could help them to increase the value of their postal services by expanding their communication offerings, e.g. public Internet access points in post offices, postal electronic mailboxes and other services (see the chapter on e-services in the postal sector). The development of e-commerce and e-financing could be equally as beneficial. Postal operators could expand their government support functions by aiding the implementation of e-government services. Such initiatives could help to increase public access to information and boost economic growth.

The Myanmar telecommunications project was approved in June 2015 by the Asian Development Bank, which functions as a lender. The project is being implemented on a build-own-operate (BOO) basis, so the private partner is responsible for building and operating the system and also owns the infrastructure. The aim of the project is to roll out infrastructure for fixed, mobile and data services in Myanmar. A procurement/bidding process was followed, in which one of two 15+10 year operating and associated spectrum licences was awarded to Ooredoo as a private-sector partner.

The project itself is part of a broader public policy aimed at implementing various infrastructure facilities in Myanmar to improve the connectivity of people and goods, including telecoms, flotillas, ports, airports, distribution and logistics.

*Sources and more information: Asian Development Bank, Myanmar case studies and project data sheets at [www.adb.org](http://www.adb.org)*

## Case study 2: Papua New Guinea and Solomon Islands ICT telecommunications project

This relatively recent case (2011) concerns a PPP arrangement between Papua New Guinea (PNG) and the Solomon Islands on the one hand and Bemobile Limited, a PNG limited-liability company, on the other. The project objectives were to strengthen Bemobile's backbone infrastructure for telecommunications so as to reduce its reliance on the legacy infrastructure of Telikom PNG (the state-owned telecom service provider) and to upgrade and expand its existing network in PNG to increase national geographic and population coverage. In the Solomon Islands the objective was to continue the roll-out of its nationwide network. Outcome and benefits were derived from the expansion of telecom services, mainly for low-income users, in both PNG and Solomon Islands. The project should thus improve the accessibility and quality of telecom services in PNG and Solomon Islands. The improved network should also enable better access to information on public services, education, health, or security. The increased affordability and improved accessibility should enable inclusive economic growth by facilitating access to markets and information and developing other businesses relying on telecoms services.

Due to limited local self-financing capacity, the government's strategy was to implement its telecom strategy together with the private sector. The project was also supported and partly financed by the Asian Development Bank (ADB). Other sponsors included GEMS, a private equity fund based in Hong Kong and Telikom PNG. The involvement of the ADB as a multilateral agency and infrastructure lender was particularly justified as it catalyzed the commercial financing of a sector in the Pacific region which, although thriving, had struggled to attract medium-term commercial lenders. Its involvement also demonstrated support for sustainable private-sector participation, good corporate governance, and strong social responsibility in the Pacific region, thus encouraging entrepreneurs and investors to consider investments in key sectors in the Pacific region while inducing competitors to improve their service offerings and performance.

This case is relevant in a postal context as it concerns an ICT project that not only improves public connectivity to the telecoms network, but also has long-term implications in a small economy (improved and expanded mobile network, more users, economic growth and poverty reduction). The project is also being rolled out in a domain of particular significance to the postal sector, comparable to the postal digital strategy for e-services. It helps to demonstrate how postal operators can provide access to information and facilitate relationships with public services, education and healthcare.

Bemobile builds, operates and ultimately owns the network under a BOO contract. It was granted a value-added services licence by the Independent Consumer and Competition Commission (ICCC) for a period of 15 years. In Solomon Islands, Bemobile was awarded a 15-year licence along with spectrums. Together, the licence and agreements gave Bemobile a non-exclusive right to provide mobile voice and data services based on the GSM and WCDMA (3G) standards in PNG and Solomon Islands. The service would be financed by the users, mainly prepaid customers.

One issue in this case was the installation of sites and stations in rural areas where there was not even the possibility to connect to the power grid. Therefore all cell sites have at least one standby diesel generator. Maintenance was relatively low, e.g. limited to regular controls at least once every four to six weeks to refill diesel.

The agreement between the parties contains clear rules on monitoring and evaluation. It obliges Bemobile to report quarterly on its financial situation as well as other key data, including environmental and social impacts. The evaluation component covers economic growth through mobile connectivity and general private-sector development in the region to justify the Asian Development Bank's involvement in the project.

*Sources and more information: Bemobile Expansion Project and Proposed Equity Investment and Loan Bemobile Expansion Project (Papua New Guinea and Solomon Islands) at [www.adb.org](http://www.adb.org).*

### Case study 3: Franchise solutions for post offices / postal outlets

In many regions of the world, particularly in Europe, postal operators have entrusted some of their post offices to private-sector service providers. The main driver behind this strategy is to replace fixed-cost-based post offices with partnerships that transfer some of the responsibility and risk of postal service operations to private-sector companies, thus shifting to a variable cost model. This has the benefit of reducing or stabilizing staff numbers and preventing the need to build or maintain infrastructure, in particular post offices themselves.

Clearly the primary objective in these cases is to cut costs, but emphasis is also laid on restructuring long-term post office network strategies. In most cases, postal operators have not completely restructured and remodelled their networks, but have taken a diversified approach, continuing to operate part of the post office network and transferring the operation of other post offices (those closed during the transformation process) to private partners.

In this context the example of Austrian Post<sup>56</sup> neatly illustrates why and how such a franchise strategy should be implemented. Today Austrian Post provides its customers with access to around 1,800 postal service points, 500 of which are operated by Austrian Post in partnership with an Austrian bank (BAWAG P.S.K). Of these, 400 are operated as post offices with banking and financial services and the other 100 are operated by the bank offering postal services in cooperation with Austrian Post. The remaining 1,300 postal outlets are operated by private sector partners which commonly have another main business activity, such as gas stations, grocery stores, supermarkets, book shops, tourism agencies, and so on. Austrian Post developed their branch concept together with the Austrian Chamber of Commerce, which saw the potential for their customers, i.e. small businesses, to widen their business activities by including postal services and attracting new customers.

Under the model, investments and responsibilities are shared. Austrian Post finances installation (primarily signage and branding, sales desks, back-office equipment, data connections, training and advertising), while the Austrian Chamber of Commerce provides funds to the private-sector partners to aid the implementation and transformation process. The private partner runs the postal service under its own responsibility and risk and is paid according to services sold and turnover. It also receives incentive payments for hitting certain quality targets. Private companies can also expand their product portfolios to include other products offered by Austrian Post in its post offices, including office materials, CDs, DVDs and telecommunication products.

While this case contains only few ICT elements, it is relevant in the context of this guide because it illustrates how to implement a strategy aimed at cutting costs and rolling out postal services at the same time, together with private-sector partners. Postal branches operated by private-sector companies, at least in the Austrian case, benefit from longer opening hours, good locations and a number of other advantages. The case also shows how cooperation between several entities can be achieved, with each of the partners assuming specific roles and risks. Lessons from the case could potentially be applied to the rollout of e-services via post offices and partners, including the involvement of other stakeholders, such as local businesses, chambers of commerce or government agencies interested in local rural development and business growth. As the case shows, synergies can also be achieved through partnerships with banks, which often face similar challenges to postal operators, such as expensive branch networks and competition from e-service solutions, including mobile phones and Internet banking.

*Sources and more information: See the websites of Austrian Post ([www.post.at](http://www.post.at)) and other postal operators for details of branch networks and partnerships with the private sector.*

<sup>56</sup> It should be noted that Austrian Post is partially privatized. The government now holds just over 50 % of Austrian Post shares, exercising its roles and representing its interests through the operator's shareholding bodies. However, this does not diminish the value of the lessons learned from this case, which could potentially be applied to other postal operators still forming part of, or 100 % owned by, their respective governments.

## Case study 4: PC Postage – USPS

In 2013 the US Postal Service (USPS) Office of Inspector General (OIG) issued a white paper on public-private partnerships<sup>57</sup> analyzing best practices and opportunities for the USPS. It identified several areas where the USPS had partnered with the private sector in the past. Those partnerships included the involvement of private partners in the operation of postal outlets, such as grocery stores or gas stations (similar to case study 3 above), sale and leaseback arrangements, sustainability partnerships or real estate lease. Some of those partnerships hardly qualify as PPPs, but provide some idea of how cooperation with private entities can be structured and designed.

Another example provided by the USPS OIG white paper is PC Postage, the trade name for the USPS's programme that allows customers to print postage from their personal computers instead of buying a stamp and affixing it to a piece of mail.

USPS has a dual approach for selling this service. First, it is possible to use the Click-N-Ship feature on the website of USPS (www.usps.com). This service is provided by a third party, a private company, to which USPS outsourced the service provision. Second, it is possible to pass via a licensed vendor, such as stamps.com, Endicia, eBay or Pitney Bowes. The arrangement between those licensees and USPS is based on a revenue-sharing agreement in which the postage is sent to the USPS.

Advantages for USPS include greater convenience for customers, who no longer need to go to the post office for stamps, and lower costs for post offices through automated stamp sales. Licensees are also given the freedom to allow stamp personalization, through the integration of photos or other features. Some licensees have partnered with providers of productivity software to incorporate postage services into word processing applications or address management software, creating added value for customers. One further feature could be of particular benefit to e-commerce solutions, namely the use of PC postage licensees to provide back-end postage services for consumer-facing (front-end) e-commerce sites.

This case is relevant as it demonstrates how postal operators can leverage private-sector expertise and skills to increase the value of their services. The licensees in the PC Postage case augment the postal service (specifically the stamp) with their creativity, innovation and efficiency. The simple stamp can be upgraded to include any number of features useful to customers, adding value and enhancing the postal service experience. Postal operators benefit from potential sales increases while private companies profit from add-ons for which users are already willing to pay.

*Sources and more information: Public–Private Partnerships: Best Practices and Opportunities for the Postal Service, white paper published by the USPS Office of Inspector General, June 24, 2013*

57 Public-Private Partnerships: Best Practices and Opportunities for the Postal Service, USPS Office of Inspector General, 2013

## Case study 5: Turkish Post – EPTTAVM

In 2011 Turkish Post (PTT) started to develop an e-commerce marketplace. The main driver behind this initiative was to better benefit from market growth in e-commerce. The primary objective was to offer an e-commerce marketplace mainly to small and medium-sized producers, while responding to the Turkish government's policy to help SMEs expand their sales activities and customer ranges. The e-commerce site, [www.epttavm.com](http://www.epttavm.com), was launched in May 2012.

Turkish Post involved several partners in this project, including private companies and a local university to conduct strategic research. The private partner was responsible for designing and building the marketplace. Most marketing is also carried out by the private company, including mailings and social network presence, although Turkish Post also advertises its website at its post offices and on its vans. The parties are working together to roll out the system, e.g. to expand the platform internationally. Tasks pertaining to the operation and management of the system are shared. The private partner is responsible for software development and system changes/updates. The payment system is operated and managed by Turkish Post. This means all payments are received by PTT, which then pays commission or transfers the relevant amounts to suppliers.

The system is fully owned by PTT. The contract term is five years, after which both parties can use the e-commerce marketplace software. However, the domain name [www.epttavm.com](http://www.epttavm.com) is owned by PTT. Users and vendors can use the site for free. Revenue is generated when products are sold. When sales are made, commission is paid based on pre-defined criteria (5, 7, 8 or 10%). The commission is then shared between PTT and the private partner.

The PPP type applied in this case is the concession model, whereby the private company finances, builds and manages the infrastructure/system and the postal operator owns it.

All postal operators are developing strategies to compete for shares of the growing e-commerce market. E-commerce marketplaces are an example of how postal operators can promote and sell their products to customers online via package solutions. These platforms are often targeted at SMEs, which can boost their visibility by putting their products on a bigger stage while benefitting from a raft of additional services, including shipping and payment solutions.

E-commerce platforms are costly and call for input from experts and specialized companies. They require upfront investment and incur operational costs through website management and upgrades. PTT chose a PPP model that allowed it to focus on its strength, i.e. logistics and payments, while transferring to the private company all website-related tasks, in particular design, creation and operation. Under the revenue-sharing model, PTT was able to quickly realize and implement the project. The private company built the website, while PTT costs and human resources were limited to the provision of traditional postal services and cooperation with the private company. The model is thus a good example of how initial investment needs can be covered and responsibilities and risks shared with a private company.

## Case study 6: An Post's licensing system – a three-partner model

When the Irish government decided to create a one-stop shop for business licenses, An Post and Escher Group formed a partnership in order to devise the solution and bid in unison. An Post and Escher Group were awarded the contract and the launch of the licences solution is planned for Q4 of 2015 ([www.licences.ie](http://www.licences.ie)). The outsourced cloud-based service, based on Escher's digital services platform RiposteTrEx™ and hosted by An Post, provides a one-stop-shop through which applicants can apply for licences and permits.

Benefits to the government or licensing authorities include: cost savings through streamlining and automated processes; better data with fewer errors and more up-to-date information; quicker licence renewals; information-sharing between licensing authorities; improved compliance; and easier inspection of licences. Advantages for applicants include: free usage of the online licensing service; 24/7 availability; improved customer experience; one-time entry of data (which is then processed for other applications); application tracking and management; single point of access for all licence information; and a secure, single storage location for all licenses and documentation. For the government, the solution provides additional advantages, including: easier processes for businesses; and process automation and digitization, which facilitates economic growth, faster communication between applicants and licensing authorities, and e-government in general. Over 100 government agencies, local authorities and other public non-commercial entities can potentially avail of the framework agreement and use the system for their application processes.

The Integrated Licensing Application Service (ILAS) provides shopping card functionality for payments and allows multiple items of different types to be aggregated into a single payment. The business model enables the licence applicant to pay for the licence only, with no additional fee for using the system. The licensing authority has no up-front investment and charges an administration fee of 2.20 EUR per application plus a payment processing fee. An Post and Escher Group, which run the system, receive a fee from the licensing authority and cooperate under a revenue-sharing model, receiving 65% and 35% of revenue respectively.

An Post is mainly responsible for operations, training, support, marketing and all customer-facing services. It hosts the system and also provides the payment gateway. Escher Group provides the software solution. The software is owned by Escher Group and the back-end system can also be sold by Escher Group to other buyers/countries. The partners jointly approach government departments and licensing authorities with a view to rolling out the system to all business licences. They entered into the partnership agreement for a term of seven years.

This case is relevant as it covers both the implementation of an e-service solution by a postal operator and cooperation with government for e-government purposes. The postal operator assumes the role of a private company offering its services to government. At the same time it partners with a private-sector company which contributes knowledge and expertise. The three-partner model is beneficial in the sense that it allows Posts to seek partnerships in areas where it has no established expertise, in this case in the development of specific software solutions. Yet Posts are also close to government and can leverage their trust factor as intermediaries. Under this arrangement, the postal operator can implement an e-service with the system backbone being provided by the private software company. The benefits of this PPP to An Post are multiple: no up-front software costs; national digital footprint; go-to provider of digital identity services; new channel for existing services (payment mechanisms, front office services, management services); and ability to compete for and win e-government contracts.

## **Case study 7: An Post – a communications portal for «The Convention on the Constitution»**

When the Irish government entered into a process of deliberating on the validity and appropriateness of some of the provisions in the Irish Constitution, it was looking for a digital communications platform to enable the general public and others more actively involved in the process – including members of the government, members of the Convention, moderators and administrators – to exchange information, documents and ideas in one place.

Escher Group and An Post were chosen for this project because their technology provided a set of features that both addressed the citizen engagement requirements and facilitated collaboration between the members of the Convention itself. Escher Group supplied the technology (RiposteTrEx) in conjunction with An Post who security-tested, hosted and supported the solution. The project was delivered jointly by Escher Group and An Post on a pro bono basis for the Irish Government, partly in order to showcase the workability and value of the system. The system provides two access levels, the first for the members of the Convention who are chosen by government to deliberate and make recommendations on the issues under debate, and the second for citizens who wish to participate in the discussions and make submissions. The closed system for the members of the Convention provides the following functionalities: registration of members in a directory; authentication and security features; system administration and moderation; private correspondence between members; exchange of documents, proposals and minutes; ability to make announcements to either members only or the general public; and scheduling of appointments and meetings. The public-facing module enables citizens to: access the public portal via the Internet, including mobiles; review 'open data' in the form of documents and videos of Convention proceedings; watch live and archived meetings; and submit public comments (subject to moderation by an administrator). In the next iteration of the software citizens will be able to 'like' submissions so they can be ranked by popularity. Citizens must provide contact details so that their submissions can be audited/verified.

With this cloud-enabled e-government communications tool, the citizen was placed at the centre of the communication framework, creating a society-wide collaborative network that has benefits within and between all of society's groupings – citizens, government, businesses and NGOs. The system has a rigid security framework and all transactions on it are recorded and captured. The system has already been run-ning since 1 December 2012. So far the platform has received about 350,000 visits from 144 countries, and contains 100 hours of televised live streaming and about 10,000 shared pages of public submissions.

Although the system is provided by An Post and Escher Group pro bono, i.e. not for profit, it serves as an example of how a postal operator can, in its traditional function as an intermediary and together with a technical partner, offer, manage and host digital platforms. Postal operators can play a crucial role as a digital interface between governments and citizens, and there are multiple opportunities for them to partner with a private company on the one hand and the government on the other to offer digital communication services.

## **Case study 8: Isle of Man – Pension payments via MiCard (three-partner model)**

MiCard is a new, secure and easy way to collect pensions and benefits from the Isle of Man Post Office. It replaces the current system of payment via cheques and vouchers by providing customers with a personal card. Customers bring their MiCard to the Post Office and collect their cash immediately.

MiCard uses state-of-the-art secure technology to ensure customers get exactly what they are entitled to, when they are entitled to it. They can access their benefits from the day they are due. They can also collect payments in cash on a weekly basis as an alternative to monthly electronic transfers. MiCard can be used only by the customer who is entitled to collect the benefit, making sure payments are protected. If a nominated person or proxy collects payments, they must have their own MiCard. This initiative is being piloted in Anagh Coar and Foxdale, before being rolled out to the entire Isle of Man Post Office network.

The procedure for implementing the system is simple. First, Social Security sends a letter to beneficiaries inviting them to enrol for a MiCard. Then, with this letter and a social security ID, beneficiaries go to the local post office. The Isle of Man Post Office processes the application and sends the MiCard to the customer before the next pension or benefit payment is due. Customers can then go with the MiCard to the post office on the pension or benefit due date and collect their payment immediately.

The Isle of Man Post Office partners with Escher Group in a joint venture model to provide the service. Both partners shared the cost of developing the system and have agreed on a revenue-sharing model for the contract term (five years). A small fee is collected per account and transaction.

This three-partner model is similar to that described in case study 6, whereby the postal operator partners with a specialized software company to develop a solution and offer it to the government, in this case the department for social security. The model also enables the postal operator to support the government's e-government strategy. The strength of the postal operator lies in its proximity to government and its trust factor: social security beneficiaries see local post offices as a trusted provider of pensions and other benefits. The three-partner model between the Isle of Man Post Office, Escher Group and the Isle of Man Social Security is a good example of a postal operator using a PPP to implement new e-services and build on its core strengths.



## Case study 9: Paraguay – platform for mobile money transfers

TEKOPORA is a conditional cash transfer programme launched by the government of Paraguay to help disadvantaged families escape poverty, exert their rights and embrace the future by providing them with better housing, hygiene, health and food.

El Correo Paraguayo, the government's partner in this project, is responsible for managing money transfers from the Social Action Secretariat (SAS) to electronic wallets on connected cell phones. To build and provide the necessary technical platform, El Correo Paraguayo entered in to a partnership with the company PRONET S.A. SAS entered into the agreement with DINACOPA (National Post of Paraguay) in December 2014 and started to operate in various regions of Paraguay, followed by a step-wise rollout of the service to other regions.

Both partners, DINACOPA and Pronet, helped to design and build the platform, with Pronet being responsible for developing and providing the necessary technological support for the service. Pronet operates, manages and owns the system (in the event of contract termination, ownership is not transferred to DINACOPA). Pronet is responsible for training DINACOPA officials how to use the system. It must also allocate, transmit and maintain records of payment operations, perform daily reconciliations of payment movements, and provide the information and reports required by the parties for the effective control and reconciliation of payment operations. DINACOPA on the other hand is responsible for providing funds and making payments to SAS beneficiaries. It must transmit to Pronet all information necessary, including the contact details of the beneficiaries. It must also provide the operational staff and resources to facilitate the service as well as any necessary hardware. For the purpose of risk avoidance, DINACOPA must provide insurance policies and guarantees to cover the receipt, transfer and payment of funds against such events as assault, robbery and theft, from collection at the operating bank to delivery to the recipients/beneficiaries.

DINACOPA receives commission from SAS and shares 40% of this commission with Pronet. The contract between DINACOPA and Pronet follows the model of a service agreement under which both parties share investments, responsibilities and risks. The contract term is relatively short, that is, one year, to be automatically extended every year unless terminated by one party.

This case is relevant as it shows how a short-term service agreement with provisions governing responsibilities and risks can make a postal operator an appropriate partner for government in the implementation of local social payment infrastructure. As in previous cases, the two biggest strengths of the postal operator in this instance are trust and proximity to government. This service requires an intermediary with an expansive network and a presence in remote areas. By joining forces with a specialized private-sector partner and drawing on its knowledge and expertise, the postal operator is able to provide a service which might otherwise have been beyond its capabilities.

## Case study 10: Liban Post – the postal operator in the role of the private partner

While traditionally postal operators engage with private companies, this case study shows how those roles can be reversed so that the postal operator becomes the private partner and provides services to government.

By 2002 Liban Post had already started to develop service solutions for government. The Lebanese government was facing efficiency issues due to a limited number of service centres with reduced opening hours, heavy administrative procedures and a lack of vital information on its citizens. The Lebanese government was aware that outsourcing government services to a private company would be problematic and highly sensitive. And Liban Post, with its bureaucracy, complex procedures and lack of automation, did not appear at first glance to be the ideal partner. However, after making some internal and organizational changes, Liban Post did embark on the development of service solutions for government.

Liban Post created a new government services business line which is responsible for about 41% of its revenue today. It handles about 2 million government formalities per year and provides more than 70 governmental services in conjunction with 12 different ministries. For the government the main advantages lie in the outsourced customer interface and increased productivity. Customers benefit from greater convenience, improved quality of service and the use of a one-stop-solution. Liban Post provides the services, including payment solutions, via its post offices, a home service and a web application.

The solution transfers all front and middle office administration to Liban Post. While the government produces the official documentation, all other steps are outsourced to Liban Post. The following examples show the range of services provided by Liban Post under its PPP contract with the government:

- Ministry of Finance: property tax payments, tax payment and declaration services, retirement services;
- Ministry of Labour: work permit renewals;
- Ministry of Interior & Municipalities: Lebanese passport renewal, police records, civil status, foreigners' residency permit renewals, payment of annual traffic fees, motorcycle permits, vehicle license replacements, driving license replacements and renewals, formalities related to Palestinians;
- Ministry of Defence: army reserve IDs;
- Ministry of Energy & Water: digging of wells, citizen complaints service;
- Ministry of Foreign Affairs: certification of documents from Foreign Affairs, Council of Ministers, official gazette subscriptions;
- Ministry of Economy and Trade: trademark services;
- Ministry of Justice: subscription request services;
- Ministry of Public Works & Transportation: civil planning;
- Ministry of Public Health: professional exercise permits;
- Ministry of Education and Higher Education: equivalence of diplomas, certification of diplomas and documents, colloquium exam applications and results.

The partnership is implemented under a BOT model. This means that Liban Post designed and built the system and now manages, operates and owns it. While the initial agreement was entered into for 15 years it has already been renewed. When the contract terminates and the partnership ends, ownership of the system will be transferred to government.

Remuneration is on a profit-sharing basis. For government services provided by Liban Post to Lebanese citizens, Liban Post receives a service fee directly from citizens on a per-user and transaction basis.

While in this case the postal operator assumes the role of the private company within the PPP contract, the scenario perfectly demonstrates how postal operators can build on their core values to be intermediaries between government and citizens. As in the case of the Irish Post, another private partner could also be taken on board to incorporate further expertise into the building of the system or creation of the interface platform. Liban Post built the platform itself, but other postal operators developing similar strategies could speed up the process by enlisting the services of a private supplier, whether bringing it into the partnership or buying its solution.



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