



**PUBLIC PRIVATE PARTNERSHIP**

**MANUAL  
PROJECT SCREENING TOOL  
2019**

**MINISTRY OF FINANCE  
ROYAL GOVERNMENT OF BHUTAN**



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## TABLE OF CONTENTS

<b>1</b>	<b>Screening Tool</b> .....	<b>1</b>
1.1.	Context.....	1
1.2.	Applicability .....	1
1.3.	Structure of the screening tool .....	2
<b>2</b>	<b>Elimination Stage</b> .....	<b>4</b>
2.1.	Project elimination stage .....	4
2.2.	Validation of criteria .....	5
2.3.	Instructions.....	6
2.4.	Visual example from the tool.....	8
<b>3</b>	<b>Selection Stage</b> .....	<b>9</b>
3.1.	Project selection stage .....	9
3.2.	Government readiness assessment.....	9
3.3.	Project's readiness assessment.....	12
3.4.	Market / sector readiness assessment.....	17
3.5.	Instructions.....	20
3.6.	Visual example from the tool.....	22
<b>4</b>	<b>Project Appraisal and Ranking</b> .....	<b>26</b>
4.1.	Rationale .....	26
4.2.	Instructions.....	26



# **1 Screening Tool**

## **1.1 Context**

To determine whether projects are viable as PPPs and eventually eligible for funding, the projects identified by public agencies have to go through a thorough screening process at the PPP Unit level to determine whether these projects indeed have potential to be developed as a PPP project and are at a sufficient stage of preparation / development to be ready.

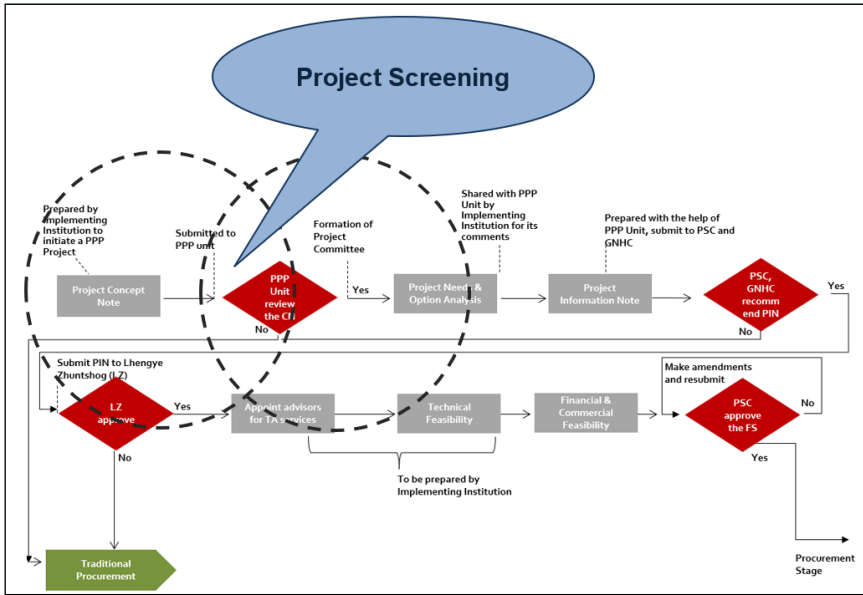
From both international and regional experience it has become clear that proper project identification and screening of projects to determine whether they have real potential to be transacted in the near future, is key to the successful implementation of PPPs and to maintain the interest of both public agencies and the private sector.

## **1.2 Applicability**

According to the Bhutanese PPP Rules and Regulations (2017), prior the project can proceed to the project needs & options analysis, responsible agency needs to prepare a Project Concept Note and submit it to the PPP Unit for a review. In order to decide which projects should be prioritized as PPPs and proceed to the next phase, there is a need for a tool that would both assess the suitability of a project on an individual basis as well allow to compare projects between each other.

The figure below presents Bhutanese framework for PPP project preparation, prior the procurement stage. The specific moment when a project screening can be applied has been highlighted in the figure below.

**Figure 1 Bhutanese framework for PPP project preparation, prior the procurement stage**



The tool will allow to establish a transparent and structured framework to select PPP projects for their further development and implementation.

The screening process will be undertaken by the PPP Unit when reviewing Project Concept Notes received from implementing agencies. The individual project screening will be organized in a joint session between the PPP Unit and the submitting agency. Simultaneously, the tool can be used both by ministries and local government units to assess the viability of potential PPP projects prior preparing the Project Concept Note.

### 1.3 Structure of the screening tool

The project screening tool consists of two stages:

- Elimination Stage
- Selection Stage.

The Elimination Stage includes PPP eligibility questions that can be easily answered and judge whether the project is eligible for development as a

PPP. It is important to conduct this Elimination Stage first, as one can then immediately determine whether any further time should be spent on the project.

Once the project has passed the Elimination Stage, PPP Unit may continue with the Selection Stage. The Selection Stage guides where further work may be required on the project (e.g. missing data and information) or where particular attention may be needed (e.g. particularly aspects of the project where additional due diligence is needed) if that project is developed further.

Given that in the early stages of identification projects lack detailed information on the cost, economic benefit, and more, the criteria are of a qualitative nature; the tool can still be useful for thinking logically through the various issues that will be required for the project to be a successful PPP. As a result, it is advisable to conduct the screening together with a responsible agency.

The tool has been developed in an *Microsoft Excel* format to be easily used by all the agencies. The following chapters explain the structure of the tool and provide instructions how it can be used. In addition, they provide context on how the results of the tool can be interpreted and used by the agencies.



## **2 Elimination Stage**

### **2.1 Project elimination stage**

PPP Unit is responsible to select projects that will be subject to project needs & option analysis, and if approved such will proceed to the technical, financial and commercial feasibility for PPP implementation. For the success of the PPP development process and effective allocation of limited resources and experience to support the development and transaction of PPP projects, it is important to pre-select projects that have real potential to be implemented as a PPP project in the foreseeable future.

Elimination stage is performed to discard projects that are clearly not suitable for PPP, are not (urgently) needed or have no clear benefits and/or projects that are expected to face substantial issues that may seriously delay or prevent their implementation.

In order to manage mutual expectations between the Project Steering Committee, PPP Unit and implementing agencies and to enhance the eligibility / viability of projects proposed by the public agencies for project development support, mutual understanding of the PPP concept, policy objectives and screening criteria is a pre-condition.

At the stage of elimination of PPP projects, it is recommended to validate whether a project can meet certain pre-conditions that justify government involvement towards project implementation and to assess next whether the project can satisfy a specific set of pass/fail criteria regarding the project's viability as a PPP project.

## 2.2 Validation of criteria

Criteria to consider a project as a potential PPP project		Evaluation		
		Pass	Fail	Additional info required
1	<p><b><i>Does the project fall under the legal mandate of the submitting agency?</i></b></p> <p><b>Assessment:</b> In order to develop a project on a <i>Public-Private Partnership</i> basis, the project must fall within the responsibility / mandate of the government of Bhutan and must also be a public infrastructure or service in economic terms.-</p>			
2	<p><b><i>Does the project concern the delivery of public infrastructure or services under the responsibility of the government?</i></b></p> <p><b>Assessment:</b> This includes the provision of key infrastructure assets and services such as roads, rail, airports, water and electricity production and distribution, health and education and waste management, etc. Conversely activities which are private by nature such as the industrial production of consumer goods are not to be considered as a public service and will not qualify as a PPP project.</p>			
3	<p><b><i>Does the project comply with or is consistent with relevant national, sector or other planning?</i></b></p> <p><b>Assessment:</b> Projects that potentially conflict with existing regulations and plans and/or do not contribute to the realization of the Bhutanese government's development objectives should not be selected.</p>			

Criteria to consider a project as a potential PPP project		Evaluation		
		Pass	Fail	Additional info required
4	<p><b><i>Does the prevailing legal framework allow private sector participation in such public interest and investment project?</i></b></p> <p><b>Assessment:</b> A project has to uphold public interest and be eligible for public investment to be procured. The current legal framework includes a list of sector and objects of national importance that cannot be procured by the private party. Therefore, this question checks whether these factors are met for a project to be selected for the PPP pipeline, or traditional procurement is more appropriate.</p>			

### 2.3 Instructions

The following list of instructions should be used when carrying out the Step 1: Elimination:

- 1) Questions must be answered by the PPP Unit together with the implementing agency (ministry, Thromde, etc.)
- 2) Questions are based on the current status of the project development
- 3) Responses require high-level information and logical thinking to answer
- 4) The following information about each project must be filled in:
  - a. Project number
  - b. Project name
  - c. Submitting agency
  - d. Date of submission
- 5) Please respond to each question under “Select the response” by selecting an answer “yes” or “no”

**Figure 2 Snapshot of the Step 1: Elimination Stage**

Project 1			
Project Name/Title		Title	
Submitting agency		Responsible agency	
Date of Submission		Date of Submission	
Question to determine the mandatory conditions	Rationale for the question (why the question is necessary)	Example of supporting evidence assisting in answering questions	Please, select the response for each question
Does the project fall under the legal mandate of the submitting institution?	In order for implementing institution to be able to develop and implement a project, it must correspond to the institution's legal responsibilities.	Legal mandate of the implementing institution	yes pass, proceed to next question
Does the project concern the delivery of public infrastructure or services under the responsibility of the government?	The purpose of the project under assessment should be to develop or deliver public infrastructure or service that meets the criteria of public investment and upholds the public interest.		yes no pass, proceed to question below

- 6) All questions must be answered in the order as they appear in the tool
- 7) All answers must be “yes” for the project to proceed to Step 2: Selection Stage
- 8) If any of the answers is “no” the tool will automatically eliminate the project (signaling with coloring in red)

## 2.4 Visual example from the tool

Figure 3 Snapshot of the Step 1: Elimination Stage

		Project 1		Project 2	
		Title	Decision	Title	Decision
		Responsible agency		Responsible agency	
		Date of Submission		Date of Submission	
Question to determine the mandatory conditions	Rationale for the question (why the question is necessary)	Example of supporting evidence assisting in answering questions	Please, select the response for each question	Please, select the response for each question	Decision
Does the project fall under the legal mandate of the submitting agency?	In order for implementing agency to be able to develop and implement a project, it must correspond to the agency's legal responsibilities	Legal mandate of the implementing institution	yes	yes	pass, proceed to next question
Does the project concern the delivery of public infrastructure or services under the responsibility of the government?	The purpose of the project under assessment should be to develop or deliver public infrastructure or service that meets the criteria of public investment and upholds the public interest.	Relevant policy / regulation	yes	yes	pass, proceed to question below
Does the project comply with or is consistent with relevant national, sector or other planning?	Projects that potentially conflict with existing regulations and plans and/or do not contribute to the realization of the Bhutanese government's development objectives should not be selected.		no	Stop, cannot proceed to Step 2: Selection Stage. The project requires further due diligence.	pass, proceed to question below
Does the prevailing legal framework allow private sector participation in such public interest and investment project?	A project has to uphold public interest and be eligible for public investment to be procured. The current legal framework includes a list of sector and objects of national importance that cannot be procured by the private party. Therefore, this question checks whether these factors are met for a project to be selected for the master PPP pipeline, or traditional procurement is more appropriate.	Applicable laws and regulations governing implementation of a particular project	yes	Stop, previous response is negative. Cannot proceed to Step 2: Selection Stage. The project requires further due diligence.	pass, proceed to question below
<b>Summary</b>			Stop, Cannot proceed to Stage 2: Selection Stage.	Pass, Proceed to Stage 2: Selection Stage.	

Response	yes	pass
	no	fail, requires further due diligence

### 3 Selection Stage

#### 3.1 Project selection stage

The selection stage aims at appraising and ranking the PPP opportunities in order to prioritize the ones with the highest potential for further assessment during the project needs & option analysis within a relatively short time span. The selection and prioritization of projects will be based on a predefined set of questions.

At the stage of selection of PPP projects, each project is scored against the following categories of questions:

1. Government readiness
2. Project readiness
3. Market / sector readiness.

Each category consists of several questions where each can be scored from 0 to 3, latter being the maximum. Each question has a corresponding definition of the score.

The table below provides an overview of the maximum score per category.

Category	Maximum
Government readiness	15
Project readiness	27
Market / sector readiness	12

#### 3.2 Government readiness assessment

These questions assess the project considered in terms of the existence of a government agency driving the process, its determination to implement the project and the capacity of this agency to carry out the project successfully. A project which is not backed by high level officials or for which the agency in charge has very limited implementation capacity will typically score low, whereas a project which is championed by a high level official and driven by a motivated PPP team will score high.

Projects that are not supported by the local community and/or targeted end users / beneficiaries have a low chance to be implemented.

Government readiness		Scoring the answer
<b>1</b>	<b>Is the project on the priority list of the implementing agency?</b>	<p>0 – The implementation of the project has not been prioritized by the implementing agency.</p> <p>1 – The project has been identified and included in sectoral plans.</p> <p>2 – The project has been included in the list of flagship / priority projects but supportive decisions have not been taken towards the implementation of the project.</p> <p>3 – The project has been included in the list of flagship / priority projects and supportive decisions have been taken towards the implementation of the project.</p>
<p><b>Rationale:</b>            A project is more likely to be successful when there is a support from the Minister/ Mayor which is demonstrated by an official letter or having the project included in the priority list of projects for the procuring agency for a pre-defined term.</p>		
<b>2</b>	<b>Does the implementing agency have experience with development of similar projects?</b>	<p>0 – The government agency has not procured other or similar PPP projects and prefers other modes of procurement over PPPs.</p> <p>1 – The government agency has not procured other or similar PPP projects but is willing to explore procurement through PPP.</p> <p>2 – The government agency has successfully procured other types of PPP projects.</p> <p>3 – The government agency has successfully procured similar PPP projects.</p>
<p><b>Rationale:</b>            Experience with similar projects increases implementing agency's capacity, ability and expertise to develop another project.</p>		

Government readiness		Scoring the answer
<b>3</b>	<b>Is the implementing agency willing to allocate resources to prepare and procure the project as per PPP regulations?</b>	<p>0 – The project does not comply with PPP regulations and the implementing agency is not willing / able to allocate resources.</p> <p>1 – The project does not comply with PPP regulations, but the government agency is willing / able to allocate resources to investigate if alternative structure can be defined.</p> <p>2 – The project complies with most PPP regulations, and the government agency is willing / able to allocate resources accordingly.</p> <p>3 – The project complies with all PPP regulations and the government agency is willing / able to allocate resources accordingly.</p>
<p><b>Rationale:</b>  When the implementing agency is willing to allocate resources (staff, technical expertise and budget) to prepare and tender a project, it has a better chance of attracting private sector's interest and resulting in financial closure.</p>		
<b>4</b>	<b>Is the sector well organized (has policies in place and responsibilities of agencies within the sector are clearly defined)?</b>	<p>0 – The sector is not well organized. There are no sector policies in place and responsibilities of agencies in the sector are not defined.</p> <p>1 – The sector is partly organized. There are no sector policies in place but the responsibilities of agencies in the sector are defined.</p> <p>2 – The sector is organized. There are sector policies in place and responsibilities of agencies in the sector are defined, although further sector reform is required.</p> <p>3 – The sector is well organized. There are clear sector policies in place and the responsibilities of agencies in the sector are well defined.</p>



Government readiness		Scoring the answer
<p><b>Rationale:</b> When government policy is clear on the permissible deployment of private skills and capital in the sector, the potential to implement PPP projects is facilitated. The chance of legal and other challenges to a PPP project is reduced and the interest of the private sector to undertake the project should increase.</p>		
<b>5</b>	<b>Does the project require enforcement and is the implementing agency willing to accommodate such for example, an increase in user tariffs, etc.)?</b>	<p>0 – The project requires major enforcements and the implementing agency is unwilling to accommodate those.</p> <p>1 – The project requires small enforcements but the implementing agency is in doubt if those can be accommodated.</p> <p>2 – The project requires enforcement and the implementing agency is willing to accommodate those.</p> <p>3 – The project does not require enforcement by the implementing agency.</p>
<p><b>Rationale:</b> Project requiring least enforcement have the biggest chance to be implemented. However, if enforcement is needed, the ability and willingness of the implementing agency to enforce such is crucial.</p>		

### 3.3 Project's readiness assessment

This set of questions assesses the project considered in terms of its intrinsic characteristics and commercial potential as a PPP.

Project readiness		Scoring the answer
<b>1</b>	<b>Is there information available about the project from any previous studies?</b>	<p>0 – There are no available previous studies for the project.</p> <p>1 – There are some previous studies available for the project but these are incomplete.</p> <p>2 – There is an existing study for the project but it requires to be updated.</p> <p>3 – There is an existing recent study for the project.</p>

Project readiness		Scoring the answer
<p><b>Rationale:</b> When there are recent previous studies available, the implementing agency has more information at hand to ease the process of preparation.</p>		
2	<p><b>Has the legal due diligence for existence of any major legal and regulatory obstacles been completed?</b></p>	<p>0 – The legal due diligence of the project has not been completed. 1 – There are serious legal obstacles that will hamper the project. 2 – There are legal obstacles, but further work has commenced to solve such prior the implantation. 3 – There are no legal obstacles present for successful implementation of the project.</p>
<p><b>Rationale:</b> In case major legal changes have to be introduced, it can delay the project development for months. Therefore, projects that conflict with current laws and regulations, and where adjustment cannot easily be solved, should be carefully evaluated prior further development.</p>		
3	<p><b>Are the revenue streams of the project clearly identified?</b></p>	<p>0 – No commercial (e.g. users, other asset uses, etc.) funding sources have been identified or are apparent and no government support of any form is foreseeable. 1 – No commercial funding sources have been identified, but potential government support required (e.g. minimum off-take agreements, guarantees, output based subsidies) is known although not yet assured. 2 – Potential commercial revenue sources are identified, and government support required is known but not yet assured. 3 – Commercial funding sources are clearly identified, and additional government support is either assured or is not required.</p>

Project readiness	Scoring the answer
<p><b>Rationale:</b> The private sector would more likely show interest for projects that have identified revenue streams from users and/or can benefit from government financial support measures such as availability payments, minimum off-take agreements, guarantees, and output based subsidies. These revenue streams will be needed to recover operational expenses, to service the debt and to provide a reasonable rate of return on the capital invested.</p>	
<p><b>4 Can the project requirements easily be defined as output specifications?</b></p>	<p>0 – The project is too complex to be specified. 1 – The project can be specified on an input basis. 2 – Parts of the project can be specified on an output basis. 3 – The project can be fully specified on an output basis.</p>
<p><b>Rationale:</b> One of the main motivations to undertake a project as a PPP is to tap the private sector’s expertise. If project specifications can be easily defined in output terms, the private sector is given much more flexibility to introduce technologies that the government may not be well aware of.</p>	
<p><b>5 Is the land readily available for the project and does not require resettlement?</b></p>	<p>0 – Significant resettlement is required for the project to be implemented, and this has already been a source of conflict or problems. 1 – Significant resettlement is required, and the resettlement process is untried or anticipated to encounter problems. 2 – Some resettlement is required, and a proven resettlement process is underway. 3 – Little to no resettlement is required and/or required resettlement has been completed and land is readily available.</p>

Project readiness		Scoring the answer
<p><b>Rationale:</b> Availability of required resources (e.g. land for project site, construction materials, etc.) to implement a project is a key success indicator for a project. For example, the resettlement is one of the biggest deal-breakers for projects as it spurs resistance.</p>		
6	<p><b>Are environmental, social, health and safety issues manageable?</b></p>	<p>0 – Safeguard issues (environment, health &amp; safety, gender, vulnerable persons/groups, etc.) are complex and costly, and are already a source of conflict or problems. 1 – Safeguard issues are still unclear and could result in complex and/or costly solutions. 2 – Safeguard issues are clear and are foreseen, and these can be addressed in a reasonably effective and cost efficient manner. 3 – Safeguard issues are not foreseen / relevant for the project.</p>
<p><b>Rationale:</b> If a project has manageable environmental, health and safety issues, the project implementation will be easier.</p>		
7	<p><b>Is the technology requirement of the project an easily accessible and proven technology?</b></p>	<p>0 – Project implementation requires unproven technology that is not yet employed in Bhutan or sector/region. 1 – Project implementation requires technology that is already employed in Bhutan, but not used in the sector. 2 – Project implementation involves technology that has been applied in Bhutan and sector. 3 – Project implementation involves proven technology that has been applied in Bhutan in similar or the same projects.</p>
<p><b>Rationale:</b> This question tests whether or not the technical design of the project is the most reasonable and contributes to achieving the objectives, serve the needs and meet public's expectations.</p>		

Project readiness		Scoring the answer
<b>8</b>	<b>Is there an initial realistic financial feasibility assessment done for the project?</b>	<p>0 – There is a realistic initial assessment of the project’s financial feasibility which shows clearly that the project is not feasible.</p> <p>1 – There is no initial assessment of the project’s financial feasibility.</p> <p>2 – There is an initial assessment of the project’s financial feasibility, but it is likely that the project will require public financial support for it to be feasible.</p> <p>3 – There is a realistic initial assessment of the project’s financial feasibility which shows clearly that the project is feasible.</p>
<p><b>Rationale:</b>  Before allocating a preparation budget for this project, it is important to determine that the project makes sense from the financial standpoint. The project is profitable when the revenues exceed the operating costs, for example.</p>		
<b>9</b>	<b>Have the major project risks been identified and whether typical risks can be transferred to the private sector?</b>	<p>0 – Many unidentified risks and no allocation proposed based on standardized PPP allocation principles.</p> <p>1 – Some unidentified risks and/or sub-optimal allocation proposed based on standardized PPP allocation principles.</p> <p>2 – Key risks are identified and the proposed risk allocation tends to comply with standardized PPP allocation principles – international and / or domestic guidance but limited precedence.</p> <p>3 – Adequate risk identification and assessment and well thought through allocation of the project’s typical key risks is proposed – there are existing risk allocation matrixes from comparable projects domestically and internationally.</p>

Project readiness	Scoring the answer
<p><b>Rationale:</b>            Proper risk identification is the basis of any project, including PPP. The government needs to know project risks in order to facilitate the process of risk allocation and management at a later stage of project development. The markets response to a proposed PPP project and the bankability of the project (the potential to reach financial close) are dependent on the project risks and their proposed allocation. In PPPs the principal risk allocation principle is that risk are allocated with the party who is best able to manage and mitigate them. 15 year of international practice with PPP development has led to a more or less standardized risk allocation.</p>	

### 3.4 Market / sector readiness assessment

This set of questions assesses the project considered in terms of level of attractiveness for the private sector. A project for which no potential bidder has been targeted and which requires skills or technologies that are unlikely to be offered in Bhutan in the near future will typically score low, whereas a project which has raised significant public interest from the local or international private sector, whether on an informal or formal basis, will score high.

Market / sector readiness	Scoring the answer
1 <b>Are the sector policies / regulations open to private sector involvement?</b>	0 - There is no legal / regulatory framework that supports private investment / operations in the sector. 1 - The sector requires substantial reforms prior the project can be implemented. 2 - There are draft policies and regulations in place but are subject to improvement. 3 - There are policies and regulations in place which have supported actual project implementation.

Market / sector readiness	Scoring the answer
<p><b>Rationale:</b> PPP, in the sense of private delivery of public services and assets, requires that the sector regulations somehow allow for private sector investment and operation in that sector. It needs to be confirmed that the private sector can invest in and operate the assets and is entitled to charge the government or end –user for the services provided. Without adequate provisions to effectively use / amend assets and charge the government / end user, most types of PPPs may not be feasible or it may require substantial sector reforms before PPPs can be accommodated.</p>	
<p><b>2 Is the private sector interested and willing to invest?</b></p>	<p>0 - The private sector does not show interest to invest and operate in the sector. 1 - The private sector shows some interest to invest and operate in the respective sector. 2 - The private sector shows strong interest to invest and operate in the respective sector and has submitted proposals to undertake this project or similar projects. 3 - The private sector is already investing in and operating similar or the same projects in the sector.</p>
<p><b>Rationale:</b> The general market appetite can be assessed by whether experienced private parties have shown interest in the project itself or in similar projects. It is also important to note if the private sector has shown skepticism, criticism or general lack of interest in such projects. Market appetite informs whether the project is likely to attract bidders in the procurement stage, as well as whether the project will need to be strongly marketed. When international companies' interest is strong, competition is further encouraged and would hence lead to a favorable pricing to the government.</p>	

Market / sector readiness	Scoring the answer
<b>3 Will the project generate sufficient financial return to potential investors?</b>	0 – The return of the project is not appropriate given the financial ambitions of potential investors. 1 – The return of the project is minor / uncertain and will not generate sufficient interest from investors. 2 – The return of the project is appropriate for potential investors. 3 – The return of the project is excessive and allows the implementing agency to earn a concession fee.
<b>Rationale:</b> The private party will look into the project if its presents a lucrative deal and it can make money on its investments. It is important to consider what the revenues and also the payment mechanisms will be for the project.	
<b>4 Can a long-term financing be secured for the project (local or international lender including commercial banks, IFIs, etc.)?</b>	0 – Neither local financial institutions nor International Financial Institutions are providing finance for similar projects. 1 – Only International Financial Institutions are willing and capable to provide financing for the project. 2 – Local Financial Institutions are willing to provide financing but are not capable to fund the project on their own. International Financial Institutions are required to partially fund the project and are willing to do so. 3 – Both local financial institutions and International Financial Institutions are themselves willing and capable to provide financing for the project.
<b>Rationale:</b> Private sector participation does not only come in the form of an equity investor. Often the larger component of project financing is from financial institutions (banks) in the form of loans. Therefore, to ensure a successful PPP project, the financial institutions must be willing to lend to the equity investors. Likewise, these institutions must also have the capacity to provide the financing required for PPP projects, which are long-term contracts.	



### **3.5 Instructions**

The following list of instructions should be followed when carrying out the Step 2: Selection:

- 1) Questions must be answered by the PPP Unit together with the implementing agency (ministry, Thromde, etc.)
- 2) Questions are based on the current status of the project development
- 3) Responses require high-level information and logical thinking to answer
- 4) Please fill out the following information about each project:
  - a. Project number
  - b. Project name
  - c. Submitting agency
  - d. Date of submission
- 5) Please respond to each question under “Select the response” by assigning score 0 ,1, 2, or 3
- 6) Based on the score assigned, the cell will automatically color in:
  - a. Green (3),
  - b. Yellow (2),
  - c. Grey (1) or
  - d. Red (0).

**Figure 4 Snapshot of the Step 2: Selection Stage**

<b>GOVERNMENT READINESS</b>				<b>Project1</b>		<b>Project2</b>	
Project Number				Title		Title	
Project Name/Title				Responsible agency		Responsible agency	
Submitting Agency				Date of Submission		Date of Submission	
Date of Submission				Score		Score	
<b>Questions to determine the government's readiness</b>							
Is the project on the priority list of the implementing agency?				<p><b>Example of supporting evidence assisting in answering questions</b></p> <p><b>Rationale for the question (why the question is necessary)</b></p> <p><b>Scoring the answer</b></p> <p>0- The implementation of the project has not been prioritized by the implementing agency.            1- The project has been identified and included in sectoral plans.            2- The project has been included in the list of flagship projects but supportive decisions have not been taken towards the implementation of the project.            3- The project has been included in the list of flagship projects and supportive decisions have been taken towards the implementation of the project.</p>			
Does the implementing agency have experience with development of similar projects?				<p><b>Rationale for the question (why the question is necessary)</b></p> <p>0- The government agency has not procured other or similar PPP projects and prefers other modes of procurement over PPPs.            1- The government agency has not procured other or similar PPP projects but is willing to explore procurement through PPP.            2- The government agency has successfully procured other types of PPP projects.            3- The government agency has successfully procured similar PPP projects.</p>			
				3		0	
				3		1	
				2		1	
				1		1	
				0		0	
				2		1	

7) All questions must be answered for the project to be considered to pass the selection stage.

### 3.6 Visual example from the tool

Figure 5 Snapshot of the Step 2: Selection Stage

GOVERNMENT REALM(S)		Project 1	Project 2	Project 3	Project 4
		Title	Title	Title	Title
		Responsible agency	Responsible agency	Responsible agency	Responsible agency
		Date of Submission	Date of Submission	Date of Submission	Date of Submission
		Score	Score	Score	Score
Questions to determine the government's readiness	<p>Is the project on the priority list of the implementing agency?</p> <ol style="list-style-type: none"> <li>The project has not been prioritized by the implementing agency.</li> <li>The project has been identified and included in the sector plan.</li> <li>The project has been included in the list of flagship projects but supportive decisions have not been taken towards the implementation of the project.</li> <li>The project has been included in the list of flagship projects and supportive decisions have been taken towards the implementation of the project.</li> </ol> <p>Does the implementing agency have experience with development of similar projects?</p> <ol style="list-style-type: none"> <li>The government agency has not procured other or similar PPP projects and/or has other modes of procurement over PPPs.</li> <li>The government agency has not procured other or similar PPP projects but is willing to explore procurement through PPP.</li> <li>The government agency has successfully procured other types of PPP projects.</li> <li>The government agency has successfully procured similar PPP projects.</li> </ol> <p>Is the implementing agency willing to allocate resources to procure and procure the project as per PPP regulations?</p> <ol style="list-style-type: none"> <li>The project does not comply with PPP regulations and the implementing agency is not willing to allocate resources.</li> <li>The project does not comply with PPP regulations, but the government agency is willing to allocate resources to investigate if alternative structure can be defined.</li> <li>The project complies with PPP regulations and the government agency is willing to allocate resources accordingly.</li> <li>The project complies with PPP regulations and the government agency is willing to allocate resources accordingly.</li> </ol> <p>Is the sector well organized/has policies in place and responsibilities of agencies within the sector are clearly defined?</p> <ol style="list-style-type: none"> <li>The sector is not well organized. There are no sector policies in place and responsibilities of agencies in the sector are not defined.</li> <li>The sector is partly organized. There are no sector policies in place but the responsibilities of agencies in the sector are defined.</li> <li>The sector is organized. There are sector policies in place and responsibilities of agencies in the sector are defined, although further development is required.</li> <li>The sector is well organized. There are clear sector policies in place and the responsibilities of agencies in the sector are well defined.</li> </ol> <p>Does the project require enforcement and is the implementing agency willing to accommodate those increases in user traits, etc.?</p> <ol style="list-style-type: none"> <li>The project requires major enforcement and the implementing agency is unwilling to accommodate those increases in user traits, etc.</li> <li>The project requires small enforcement but the implementing agency is in doubt if those can be accommodated.</li> <li>The project requires enforcement and the implementing agency is willing to accommodate those increases in user traits, etc.</li> <li>The project does not require enforcement by the implementing agency.</li> </ol>	3	0	3	3
Released for the question (why the question is necessary)	<p>Approved (more likely) to be successful when there is a clear government policy and an official plan or having the project included in the priority list of projects for the procuring agency for a defined term.</p> <p>Experiences with similar projects, processes, implementing agency's capacity, ability and expertise to successfully develop another project.</p> <p>When the implementing agency undertaking the project is willing to allocate resources (staff, technical expertise and budget) to prepare and tender a project, it has a better chance of attracting private sector's interest and resulting in financial closure.</p> <p>When government policy is clear on the permissible deployment of private skills, and capital in the sector, the potential to implement PPP projects is facilitated. The chance of legal and other challenges to a PPP project is reduced and the interest of the private sector to undertake the project should increase.</p> <p>Project requiring least enforcement have the biggest chance to be implemented. However, if enforcement is needed, the ability and willingness of the implementing agency to enforce such is crucial.</p>	3	1	3	1
Example of supporting evidence assisting in answering questions	<p>Official list of flagship projects or a supporting letter</p> <p>List of similar and previously successfully developed projects</p> <p>High-level plan on existing assets and resources the agency has and what is required for the projects</p> <p>Outlining policy</p>	3	0	3	3
Standardized score (used only for prioritization purposes)		33	33	80	47
Total score		33	33	80	47
Mean score		33	33	80	47



<p>Is the technology requirement of the project an easily accessible and proven technology?</p> <p>0 - Project implementation requires unproven technology that is not yet employed in Bhutan or elsewhere.</p> <p>1 - Project implementation requires technology that is already employed in Bhutan, but not used in the sector.</p> <p>2 - Project implementation involves technology that has been applied in Bhutan and sector.</p> <p>3 - Project implementation involves proven technology that has been applied in Bhutan in similar or the same projects.</p>	<p>This question tests whether or not the technical design of the project is the most reasonable and contributes to achieving the objectives, serve the needs and meet public's expectations.</p>	<p>4. List of companies with relevant experience</p>	<p>3</p>	<p>1</p>	<p>0</p>	<p>3</p>
<p>Is there an initial realistic financial feasibility assessment done for the project?</p> <p>0 - There is a realistic initial assessment of the project's financial feasibility which shows clearly that the project is not feasible.</p> <p>1 - There is no initial assessment of the project's financial feasibility.</p> <p>2 - There is an initial assessment of the project's financial feasibility, but it is likely that the project will require public financial support for it to be feasible.</p> <p>3 - There is a realistic initial assessment of the project's financial feasibility which shows clearly that the project is feasible.</p>	<p>Before allocating a preparation budget for this project, it is important to determine that the project makes sense from the financial standpoint. The project is profitable when the revenues exceed the operating costs. For example:</p>	<p>Estimates of capital, operating, revenues, sale support, cost of advisors</p>	<p>3</p>	<p>2</p>	<p>1</p>	<p>0</p>
<p>Have the major project risks been identified and whether typical risks can be transferred to the private sector?</p> <p>0 - Many unidentified risks and no allocation proposed based on standardized PPP allocation principles.</p> <p>1 - Some unidentified risks and sub-optimal allocation proposed based on standardized PPP allocation principles.</p> <p>2 - Key risks are identified and the proposed risk allocation tends to comply with standardized PPP allocation principles - international and/or domestic guidance but limited precedence.</p> <p>3 - Adequate risk identification and assessment and well thought through allocation of the project's typical key risks is proposed - there are existing risk allocation methods from comparable projects domestically and internationally.</p>	<p>Proper risk identification is the basis of any project, including PPP. The government needs to know project risks in order to facilitate the process of risk allocation and management at a later stage of project development. The markets response to a proposed PPP project and the bankability of the project (the potential to meet financial goals) are dependent on the project risks and their proposed allocation. In PPPs the principal risk allocation principle is that risk are allocated with the party who is best able to manage and mitigate them. 15 year of international practice with PPP development has led to a more or less standardized risk allocation.</p>	<p>Risk matrix</p>	<p>3</p>	<p>1</p>	<p>2</p>	<p>0</p>
<p>Total score</p> <p>Maximum possible score</p> <p>Standardized score (used only for prioritization purposes)</p>			<p>27</p>	<p>18</p>	<p>11</p>	<p>7</p>
			<p>27</p>	<p>27</p>	<p>27</p>	<p>27</p>
			<p>100</p>	<p>6.7</p>	<p>4.1</p>	<p>2.6</p>

**MARKET SECTOR READINESS**

Project Number Project Name/Title Submitting Agency Date of Submission	Project 1		Project 2		Project 3		Project 4		
	Title	Score	Title	Score	Title	Score	Title	Score	
Responsible agency Date of Submission	Responsible agency Date of Submission	Responsible agency Date of Submission	Responsible agency Date of Submission	Responsible agency Date of Submission	Responsible agency Date of Submission	Responsible agency Date of Submission	Responsible agency Date of Submission	Responsible agency Date of Submission	
<p><b>Questions to determine market's readiness</b></p> <p>Are the sector policies/regulatory framework (that supports private investment) open to private sector involvement in the sector?</p> <ol style="list-style-type: none"> <li>There is no legal/regulatory framework that supports private investment/operation in the sector.</li> <li>The sector requires substantial reforms prior the project can be implemented.</li> <li>There are draft policies and regulations in place but are subject to improvement.</li> <li>There are policies and regulations in place which have supported actual project implementation.</li> </ol> <p>Is the private sector interested and willing to invest?</p> <ol style="list-style-type: none"> <li>The private sector does not show interest to invest and operate in the sector.</li> <li>The private sector shows some interest to invest and operate in the respective sector.</li> <li>The private sector shows strong interest to invest and operate in the respective sector and has submitted proposals to undertake this project or similar projects.</li> <li>The private sector is already investing in and operating similar or the same projects in the sector.</li> </ol> <p>Will the project generate sufficient return to potential investors?</p> <ol style="list-style-type: none"> <li>The return of the project is not appropriate given the financial ambitions of potential investors.</li> <li>The return of the project is minor/uncertain and will not generate sufficient return to potential investors.</li> <li>The return of the project is adequate for potential investors.</li> <li>The return of the project is excessive and allows the implementing agency to earn a reasonable profit.</li> </ol> <p>Can a long-term financing be secured for the project local or international lender including commercial banks, IFIs, etc.?</p> <ol style="list-style-type: none"> <li>Neither local financial institutions nor international financial institutions are providing finance for similar projects.</li> <li>Local financial institutions are willing and capable to provide financing for the project.</li> <li>Local financial institutions are willing to provide financing but are not capable to fund the project on their own. International financial institutions are required partially to fund the project and are willing to do so.</li> <li>Both local financial institutions and international financial institutions are themselves willing and capable to provide financing for the project.</li> </ol>	<p><b>Rationale for the question</b></p> <p>PPP in the areas of private delivery of public services and assets requires the sector regulators somehow allow for private sector investment and operation in that sector. It needs to be confirmed that the private sector can invest in and operate the assets and is entitled to charge the government for end-user for the services provided. Without adequate provisions to effectively use, amend assets and change the government (end user, most types of PPPs) may not be feasible or it may require substantial sector reforms before PPPs can be accommodated.</p> <p>The general market appetite can be assessed by whether experienced private parties have shown interest in the project itself or in similar projects. It is also important to note if the private sector has shown skepticism, criticism or general lack of interest in such projects. Market appetite informs whether the project is likely to attract bidders in the procurement stage, as well as whether the project will need to be strongly marketed. When international companies' interest is strong, competition is further encouraged and would hence lead to a reasonable pricing for the government.</p> <p>The private party will not into the project if it presents a lucrative deal and it can make money on its investments. It is important to consider what the revenues and also the payment mechanisms will be for the project.</p> <p>Private sector participation does not come in the form of an equity investor. Often the larger component of project financing is from financial institutions (banks) in the form of loans. Therefore to ensure a successful PPP project, the financial institutions must be willing to lend to the equity investor. Likewise, these institutions must also have the capacity to provide the financing required for PPP projects, which are long-term contracts.</p>	<p><b>Example of supporting evidence assisting in answering questions</b></p> <p>List of interested and experienced companies</p> <p>The main revenue streams together with the paying party or source of funding if the government is the paying party</p> <p>List of banks' requirement periods, interest rates and size of the loan</p>	2	3	1	3	2	3	3
<p>Total score</p> <p>Maximum possible score</p> <p><b>Standardized score (used only for prioritization purposes)</b></p>	11	12	3	12	5	12	7.5	4.2	6.7



## 4 Project Appraisal and Ranking

### 4.1 Rationale

The final step of the tool is project appraisal. The tool allows to appraise individual projects as well as multiple ones, ranking them based on the strongest potential to be implemented as a PPP.

### 4.2 Instructions

The final sheet “Project appraisal and ranking” provides a summary per project. Tabs indicate whether the project passed the Step 1: Elimination Stage or did not. Cells automatically colour in green (yes) or red (no).

**Figure 6 Snapshot of the Step 3: Ranking Stage**

*Project appraisal and ranking*

Project Name / Title	Title			Title			Title			Title		
Elimination decision	Pass. Proceed to Stage 2: Selection			Stop. Cannot proceed to Stage 2: Selection			Pass. Proceed to Stage 2: Selection			Stop. Cannot proceed to Stage 2:		
Is project proceeding to Step 2: Selection Stage?	Project is proceeding to Selection Stage			No, the project cannot be selected for Selection Stage			Project is proceeding to Selection Stage			No, the project cannot be selected for Selection Stage		
Summary Selection Stage	Standardized Score	Weighting (0 - 100%)	Weighted Standardized Score	Standardized Score	Weighting (0 - 100%)	Weighted Standardized Score	Standardized Score	Weighting (0 - 100%)	Weighted Standardized Score	Standardized Score	Weighting (0 - 100%)	Weighted Standardized Score
Government readiness	9.3	30%	2.8	3.3	20%	0.7	8.0	40%	3.2	4.7	30%	1.4
Project Readiness	10.0	40%	4.0	6.7	50%	3.3	4.1	40%	1.6	2.6	40%	1.0
Market / Sector Readiness	9.2	30%	2.8	7.5	30%	2.3	4.2	20%	0.8	6.7	30%	2.0
Composite weighted standardized score	28.5	100%	9.6	17.5	100%	0.0	16.2	100%	5.7	13.9	100%	0.0

Composite standardized score	from 8.0 to 10.0	Project has reasonable PPP potential and implementing agency may proceed to project needs & options analysis
	from 4.0 to 7.9	It is recommended to collect more detailed information on those questions that scored the lowest, and if necessary, resubmit the response based on more detailed information
	from 0 to 3.9	It is recommended for the implementing institution to conduct further due diligence on the project and revisit the PPP suitability assessment

In order to capture individual characteristics per sector and / or project itself, it is suggested to use weighting in calculating the final score per project. Greater weight is assigned to the readiness criteria that is the most important in PPP procurement and implementation. It is recommendable that the weighting is defined by the PPP Unit together with the implementing agency (ministry, Thromde, etc.). The combined weighting per criteria per project must equal 100%.

**Figure 7 Weighting of the readiness**

Project Name / Title	Title			Title		
Elimination decision	Pass. Proceed to Stage 2: Selection Stage.			Stop. Cannot proceed to Stage 2: Selection Stage.		
Is project proceeding to Step 2: Selection Stage?	Project is proceeding to Selection Stage			No, the project cannot be selected for Selection Stage		
Summary Selection Stage	Standardized Score	Weighting (0 - 100%)	Weighted Standardized Score	Standardized Score	Weighting (0 - 100%)	Weighted Standardized Score
Government readiness	9.3	30%	2.8	3.3	20%	0.7
Project Readiness	10.0	40%	4.0	6.7	50%	3.3
Market / Sector Readiness	9.2	30%	2.8	7.5	30%	2.3
Composite weighted standardized score	28.5	100%	9.6	17.5	100%	0.0

Based on the weighting assigned, the composite weighted standardized score will be calculated automatically in the grey coloured cell. Maximum score to be calculated per project is 10.0.

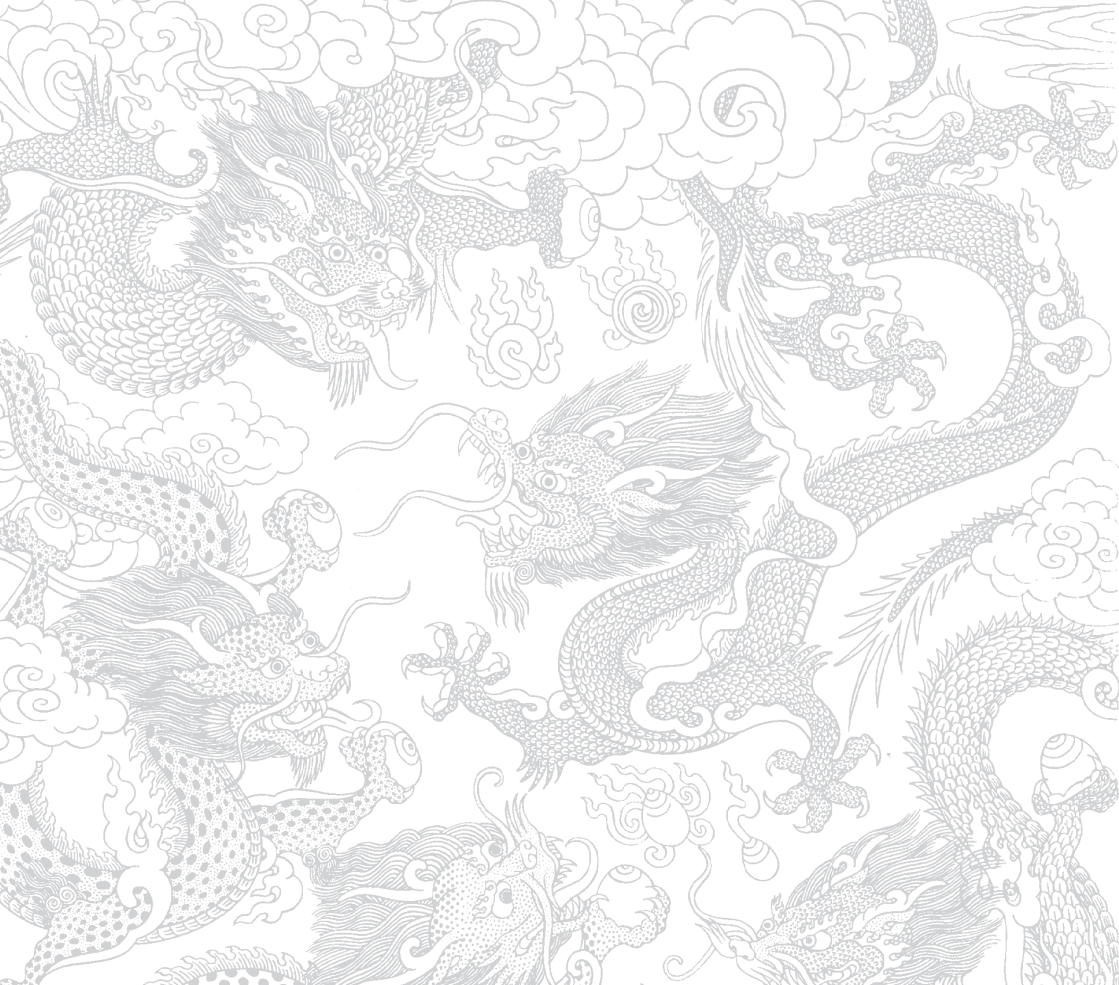
**Figure 8 Weighting standardized score**

Project Name / Title	Title			Title		
Elimination decision	Pass. Proceed to Stage 2: Selection Stage.			Stop. Cannot proceed to Stage 2: Selection Stage.		
Is project proceeding to Step 2: Selection Stage?	Project is proceeding to Selection Stage			No, the project cannot be selected for Selection Stage		
Summary Selection Stage	Standardized Score	Weighting (0 - 100%)	Weighted Standardized Score	Standardized Score	Weighting (0 - 100%)	Weighted Standardized Score
Government readiness	9.3	30%	2.8	3.3	20%	0.7
Project Readiness	10.0	40%	4.0	6.7	50%	3.3
Market / Sector Readiness	9.2	30%	2.8	7.5	30%	2.3
Composite weighted standardized score	28.5	100%	9.6	17.5	100%	0.0

The follow up actions per project are determined by the resulting weighted standardized score. The instructions are shown in the table below.

Minimum	Maximum	Instructions
8.0	10.0	Project has reasonable PPP potential, and implementing agency may proceed to project needs & options analysis.
4.0	7.9	It is recommended to collect more detailed information on those questions that scored the lowest, and if necessary, resubmit the response based on more detailed information.
0	3.9	It is recommended for the implementing agency to conduct further due diligence on the project and revisit the PPP suitability assessment.





Ministry of Finance  
P.O Box:117, Tashichhodzong, Thimphu  
PABX: +975-2-322223 / 322514 / 322271 / 327763 / 322285  
Fax: +975-2-323154  
[www.mof.gov.bt](http://www.mof.gov.bt)