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VALUE FOR MONEY IN INTERNATIONAL INFRASTRUCTURE PUBLIC PRIVATE PARTNERSHIP POLICIES: SURVEY OF AFRICAN STATES

Michael Regan¹, Jim Smith², Peter Love³

Abstract

The international evidence suggests that public private partnership (PPP) procurement methods using value for money evaluation criteria are delivering better infrastructure services at lower cost than traditional procurement methods. Central to the operation of public private partnerships is the systematic evaluation of the procurement options available to government, as well as an output specification to encourage private design, risk transfer, construction and operational innovation, the detailed analysis of projects over their operational life cycle, a rigorous and competitive bid process, and the selection of proposals that deliver value for money. Value for money is a measure that takes into account both the quantitative and qualitative outcomes over the term of a contract. International surveys undertaken for this study suggest that public private partnership policies that adopt value for money principles and practices will provide government with more accurate information to configure optimal procurement solutions for infrastructure service delivery.

Among non-member Organisations for Economic Co-operation and Development (OECD) countries, practices vary and value for money assessment may use a formal assessment method such as the public sector comparator or one of several informal methods such as a requirement for detailed project analysis during the investment stage, technical service specifications, detailed bidder selection criteria, special approval and governance standards, the prequalification of bidders, and a requirement for competitive bidding, standard commercial principles or competitive dialogue during negotiations. A review of the international evidence suggests PPPs that use value for money evaluation criteria are achieving improved procurement outcomes for government. This is more prevalent with larger and more complex projects that make greater use of risk transfer, innovation, technology, and a competitive bid market. International evidence suggests that PPPs are lowering the cost of services to government, improving regional economic performance, and are making a significant contribution to improved service quality.

Keywords: Infrastructure, public private partnerships, international survey.

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1.0 Introduction

Many countries specify *value for money* (VfM) as part of project selection and bidder evaluation criteria although not all provide detailed methodology for measuring it. Grimsey (2006) suggests that there are four methods for determining VfM in project procurement:

- A full cost-benefit analysis of the most likely public and private sector alternatives.
- A detailed modelling of risk-weighted and life cycle costed models of traditional state procurement (the Public Sector Comparator - PSC) and a shadow bid for a PPP before bids are invited.
- A VfM comparison of the PSC and the contractor proposals received following the tender process.
- Reliance on a competitive bidding process.

A recent survey of 18 OECD countries and one sub-national government found all but one jurisdiction conducted *ex ante* VfM analysis for PPP projects (Burger and Hawkesworth, 2011). The survey included 19 national governments (Austria, Canada, Denmark, France, Germany, Hungary, Netherlands, Norway, Spain, Czech Republic, Greece, Ireland, Italy, Slovak Republic, South Africa, United Kingdom, Australia, Korea, Chile and Mexico, and one provincial government New South Wales, Australia (Burger and Hawkesworth, 2011, p. 11). The survey suggested that the manner and time at which VfM was assessed was different in most of the countries surveyed.

The two common methods for ascertaining VfM are as follows. First, a public sector comparator (PSC), which is a life cycle cost model of the most expedient alternative procurement method to a PPP, generally a traditional procurement model. The PSC is a theoretical construct based on the initial scope and specification for the service and is used to select the best procurement option (HM Treasury 2011a). In some jurisdictions, the PSC undergoes further adjustment to create a benchmark that is used to measure risk-adjusted cost differences between proposals received from private contractors in a competitive bid process (Infrastructure Australia, 2008b; HM Treasury, 2006).

2.0 The Public Sector Comparator

The PSC is a hypothetical model of government procurement using the most expedient method available to deliver services to specification over the term of the proposed PPP contract. The PSC represents the quantitative measure of VfM with an infrastructure project. It is supported by a qualitative analysis of bids received from a competitive tender process that takes place later in the procurement process.

The PSC is an estimate of the financial cost of the project over term of the proposed PPP contract. It includes the initial capital cost of constructing the infrastructure, and the operational and other expenses incurred delivering services over the project life cycle. It also provides a comparative tool for selecting the contractor bid that best meets the project requirements. In fully-developed form, the PSC is also weighted for risk. This means that the

major cost variables over the life of the contract such as site conditions, construction cost, operating expenses, hold-ups and delays, demand for services, financing costs, compliance with environmental and service requirements, and force majeure events are taken into account when calculating the aggregate cost of delivering the service. Many of these risks will be allocated to contractors and the remainder borne by government. The risks are identified and fully priced using a number of conventional techniques, and a final adjustment made for competitive neutrality (the value of government's tax exemptions and immunities) and *ex post* regulatory and contract management costs incurred by government. The adjusted PSC is called a reference project and it permits a like-with-like comparison to be made between the two methods of procurement. Risk identification, measurement and pricing are examined in further detail below.

The design of the PSC and its use varies between jurisdictions. In the United Kingdom, an early assessment is made of financial models of the most efficient method of traditional procurement and a shadow PPP bid using a standard spread-sheet template. The shadow bid is based on historical data received from earlier bidder proposals of similar type. The agency then can determine which procurement option offers best VfM. In other jurisdictions, the PSC takes the form of a detailed options analysis or feasibility study that takes into account technical, legal, environmental and financial due diligence assessment. In different jurisdictions not all of these stages in the development of the PSC are necessarily observed. Nevertheless, the PSC used to determine VfM is a model of the most efficient method of government delivery of the service for similar assets or services.

The PSC uses discounted cash flow analysis that meets the output specification for the project. It takes into account the value of the risk withheld by government, the value of the risk transferred to the contractor and competitive neutrality, which adjusts for the tax and other exemptions that apply to government and its agencies. The PSC has several applications: it can be used to establish a project's feasibility, to prioritise a short-list of projects, and used to select a successful bidder from a competitive tender process. As a fully priced procurement option for government, it enables government agencies to identify the financial differences between procurement options. The PSC plays an important role in the evaluation of proposals and the assessment of VfM. However, its accuracy depends on the assumptions used to establish costs, i.e. to identify, measure and price risk. The PSC should be robust and consistent with the project scope issued to bidders (KPMG, 2011: p. 2). The elements of the PSC are the "base" or "raw" PSC, which is a costing of the asset or services under government ownership and management, an adjustment for competitive neutrality, the value of risk transferred to the contractor, the risk retained by government, and the discount rate.

3.0 Additional Value for Money Benefits

Alternative methods are available for assessing *ex ante* VfM with PPP projects during either the investment or the procurement stages of the project. At the investment stage, this may take the form of multi-criteria analysis, cost effectiveness studies, options analysis, and comparisons against earlier procurement benchmarks (Republic of South Africa, 1999: Treasury Regulation 16). During the procurement stage, government may require review of

the short-listed bidder proposals by independent consultants, a systematic in-house analysis of the preferred bid, or the coordination, oversight or monitoring of projects by the PPP unit or the Treasury and Finance Department [The Philippines Build-Operate-Transfer (BOT) Law RA 7718/2012]. Each of these methods of assessing VfM is examined in the following section.

A further requirement to enhance VfM outcomes is a competitive bid process, which assumes that private contractors can generally deliver assets and services more efficiently and at lower cost than a public sector agency. The requirements here may include a minimum number of bidders, a pre-qualification process, and an open auction approach to the Expression of Interest (EOI) or Request for Proposal (RFP) stages of the bid or a two-part evaluation process whereby the technical evaluation of bids proceeds independently of the commercial evaluation. These practices are adopted with many concessions and BOT contracts and rely on a competitive bid market to enhance VfM outcomes compared with traditional procurement, which is widely accepted as the benchmark for measuring infrastructure procurement. Unlike a PPP, a traditional contract is an adversarial contract with an input specification and the contractor is selected using criteria heavily weighted in favour of lowest cost. The advantages of traditional procurement are that it is a simpler procurement process to follow and a relatively low cost procurement option for government.

The steps that can be taken during the procurement process that increase the likelihood of an improvement in VfM include a requirement for significant risk transfer (Republic of South Africa, 1999: Treasury Regulation 16), a well-drafted output specification (India Ministry of Finance, 2011), a review of the administrative and technical requirement of bids with the government's project requirements (Republic of Indonesia, 2010: Law PR13/2010), the adoption of competitive bidding with a minimum number of bidders (Indonesia Law PR13/2010), a rigorous or two-part bidding process (Government of the Philippines, 2012: BOT Law RA 7718/2012, Rule 5), separate technical and financial selection processes (India Ministry of Finance 2012; The Philippines BOT Law 2012 RA 7718/2012), observing competitive negotiations following appointment of the preferred contractor, and the use of comprehensive selection criteria. For example, India's draft national PPP policy proposes a weighting for technical assessment accounting for 70% of selection criteria. This may include qualitative factors such as the bidder's experience and track record with PPP projects.

4.0 Value for Money Measurement

There are two ways of calculating VfM with PPP procurement. The first involves the preparation of a PSC or the use of benchmarking to compare the procurement options during the investment decision-making for the project. As noted above, many OECD countries employ formal evaluation of VfM because of the information that it provides government about the value of project risk for allocation purposes, life cycle costs, and the optimal configuration of projects. This information provides government with decisions about investment, procurement and bidder selection. Formal VfM determination is examined below. VfM may also be enhanced for PPP projects with a comprehensive procurement process, competitive bid markets, and independent evaluation and approvals process.

4.1 Formal Assessment

Formal VfM assessment generally involves the preparation of a life cycle-costed traditional procurement benchmark used to compare alternative procurement options, and following adjustment for risk transfer and competitive neutrality, it is used for the comparative assessment of contractor bids during the bidder selection process. Formal VfM assessment requires assessment of both the quantitative and qualitative characteristics of bids.

4.2 Quantitative Measurement

Quantitative measurement sets out to compare the costs and benefits of different procurement options. It may be undertaken on a formal basis using a procurement benchmark such as the PSC, or a combination of technical and financial requirements prepared by government for the project. Both methods attempt to compare the PPP procurement option against a benchmark such as a traditional design and construction solution. The choice of measurement method will be based on a number of considerations unique to the project such as the level of complexity, the size of the project, and opportunity to achieve VfM cost savings through risk transfer, private management efficiency, or design and construction efficiency.

In OECD countries, VfM is determined using a PSC, which measures the difference between a traditional procurement method and either a shadow PPP bid during the investment stage of the project or actual bids received during the procurement stage. The PSC and shadow bid can be undertaken during the investment stage of the project to inform government decision-making about the procurement method, and later to compare the preferred bidder's proposal during the procurement stage. In non-OECD countries, the selection of both the procurement method and successful bidder is made against informal criteria such as a competitive bid process or using comprehensive bid market selection criteria.

5.0 International Survey of PPP Policy

Information about international PPP policies and the role that VfM plays is determining benefits to government from this method of procurement was collected in a survey of 80 countries (OECD, 2010). The survey was used to identify the incidence of PPP policy and the use of VfM in the procurement process. A second study of 20 countries examined national PPP policy in greater detail to examine differences in the use of VfM principles between OECD and non-OECD countries. A third study used a sample of six countries for more detailed explanation of PPP policy and the application of VfM principles.

A survey of 80 countries was conducted in January 2013 to identify nations with a PPP procurement policy and the extent to which the national policy employed VfM assessment criteria. Table 1 summarises the 80 country survey and indicates whether PPPs are being pursued and whether a VfM framework is being followed.

Table 1 *Public Private Partnership Policy Survey*

Country	PPP/BOT Policy	VfM Principles	Country	PPP/BOT Policy	VfM Principles
1. Algeria	Yes		44. Malta	Yes	Yes
2. Argentina	Yes		45. Mauritius	Yes	Yes
3. Australia	Yes	Yes	46. Mexico	Yes	
4. Austria	Yes		47. Mongolia	Yes	
5. Bangladesh	Yes		48. Morocco	Yes	
6. Belgium	Yes		49. Mozambique	Yes	
7. Botswana	Yes		50. Myanmar	In Progress	
8. Brazil	Yes		51. Namibia	Yes	
9. Bulgaria	Yes		52. Nepal	Yes	
10. Cambodia	In Progress		53. Netherlands	Yes	
11. Cameroon	Yes		54. New Zealand	Yes	Yes
12. Canada	Yes	Yes	55. Nigeria	Yes	
13. Chile	Yes		56. Northern Ireland	Yes	Yes
14. China	Yes		57. Norway	Yes	Yes
15. Colombia	Yes		58. PNG	In Progress	In Progress
16. Costa Rica	Yes		59. Pakistan	Yes	Yes
17. Croatia	Yes		60. Peru	Yes	
18. Czech Republic	Yes		61. Philippines	Yes	
19. Denmark	Yes		62. Poland	Yes	
20. Ecuador	Yes		63. Portugal	Yes	
21. Egypt	Yes		64. Puerto Rico	Yes	
22. Finland	Yes		65. Romania	Yes	
23. France	Yes		66. Russia	Na	
24. Germany	Yes		67. Senegal	Yes	Yes
25. Ghana	Yes		68. Singapore	Yes	Yes
26. Greece	Yes	Yes	69. Slovak Republic	Yes	Yes
27. Hong Kong	Yes	Yes	70. Slovenia	Yes	
28. Hungary	Yes		71. South Africa	Yes	Yes
29. India	Yes	Yes	72. South Korea	Yes	Yes
30. Indonesia	Yes		73. Spain	Yes	
31. Ireland	Yes	Yes	74. Sri Lanka	Yes	
32. Israel	Yes		75. Sweden	Na	
33. Italy	Yes		76. Switzerland	No	
34. Japan	Yes		77. Tanzania	Yes	Yes
35. Kazakhstan	Yes		78. Thailand	Yes	
36. Kenya	Yes	Yes	79. Tunisia	Yes	
37. Kosovo	Yes	Yes	80. Turkey	Yes	
38. Latvia	Yes	Yes	81. Uganda	Yes	

39. Lithuania	Yes		82. United Kingdom	Yes	
40. Macedonia	Yes		83. Uruguay	Yes	
41. Madagascar	Yes		84. Uzbekistan	No	
42. Malawi	Yes	Yes	85. Vietnam	Yes	
43. Malaysia	Yes		86. Zambia	Yes	Yes

The survey found wide divergence in national PPP policies with few regional PPP policies replicating national policy, few similarities between national policies and a variety of methodologies for assessing VfM with PPP procurement. What was evident, however, was the adoption of regional commercial principles and practices. For example, in South East Asian countries, bids are generally submitted in two stages, a technical proposal that includes compliance with legal and specification requirements and a statement about the track record and experience of the consortium and individual managers, and a financial proposal. This practice is not widely employed in Europe or North America. The survey suggests that the majority of countries have a procurement policy for transactions that include PPPs, BOT and concession contracts. The survey searched for PPP policies in each country using the word search term “value for money” and found 52% of the sample used the term but only 21% offered methods for its calculation. This suggests that in recent years, the use of VfM has been an aspirational policy objective and is not often used as an instrument for its calculation.

6.0 OECD Value for Money Survey 2011

Burger and Hawkesworth (2011) compared PPP policy frameworks for a sample of 20 OECD countries. The study examined VfM practices and the extent to which institutional frameworks influenced the scope and application of VfM principles in procurement and bidder selection processes for PPP projects. The OECD survey identified design differences between countries, and found that most countries (65% of the sample) limited policy application to national government and 35% included state/provincial and local government within its application. However, there were significant differences in policy design and Australia, for example, applies a uniform national policy but permits sub-national governments to modify policy to meet local requirements.

Countries implemented PPP policy under existing procurement law (45%) or as a specific PPP law or policy (30%). The *ex ante* assessment of VfM was required in 55% of countries and a further 25% required assessment above a prescribed value threshold. Only 15% of the sample did not require VfM assessment. Nearly all countries applied standardised VfM principles to all sectors of the economy. The PSC was used to calculate VfM in 85% of countries. By comparison, traditional procurement is measured using cost benefit analysis and lowest cost selection criteria and three countries conduct independent life cycle costing of traditionally procured projects. The investment decision precedes the choice of procurement method in 55% of countries with a further 15% of the sample doing this in more than 50% of cases.

7.0 Results

The findings confirm that most OECD countries possess a national PPP policy that in most cases is integrated into a government procurement policy framework. VfM assessment is conducted during either or both the investment and procurement stages of the project for 16 countries (80% of the sample) of which five set minimum transaction sizes. The PSC was used to determine VfM in 17 countries (85% of the sample) which highlights the important role played by the PSC in determining VfM outcomes in OECD countries.

7.1 Survey of National PPP Policies

A survey of 18 national and 2 subnational governments was conducted by Burger and Hawkesworth, 2011, to identify differences in PPP policy design for a random sample of countries. The sample was selected to provide a representative group of countries in development terms and comprised seven governments in the first stage or factor-driven level of development (GDP per capita <USD2, 000), two in transition to stage two (USD2-3,000), three in stage two efficiency-driven economies (USD3-9,000), one in transition between stages two and three, and seven in stage three innovation-driven economies (>USD17, 000) (World Economic Forum, 2013).

There was little to distinguish sub-national PPP policies from those applying at national level although countries with a federal system of government are more likely to feature a constitutional separation of powers between central and provincial governments for provision of infrastructure. In Canada, Australia, India and the United States, the state or provincial governments provide infrastructure with financial assistance from the national government. The survey does suggest that stage three developed economies are more likely to employ VfM principles in their PPP policies than countries at a lower level of development (see the Burger and Hawkesworth, 2011 OECD VfM survey). Nevertheless, an omission of VfM criteria in the policy framework does not mean that VfM principles are not embedded in the procurement process during either selection of the procurement method and bidder selection, or by a requirement for a competitive bid processes. The majority of countries that explicitly refer to VfM criteria conduct the assessment at the feasibility stage of the project, 10% assess VfM in the bid selection process and 15% conduct the assessment at both the feasibility and post-bid stages.

On the question of explicit recognition of risk allocation in policy, 70% of the sample identify risk allocation as a major driver of VfM and refer to it as a policy objective. However, only 50% of the sample expressly assessed risk when calculating VfM. Some 15% of the sample did not use risk transfer to calculate VfM and 15% made no mention of it. On the question of the quantitative benchmarking of the procurement options, over half of the sample did not require options analysis or a PSC. The countries employing a PSC were countries in more advanced stages of development. The majority of countries in the sample used an output specification (65%) while the policies of the remainder were silent on the matter. See Appendix C.

7.2 Results

The survey suggests a divergence in PPP policies between stage three (developed) countries and those at other levels of development. Stage three economies typically employ VfM principles in their policies both as an objective and as an assessment requirement, and explicitly include risk transfer, a PSC/quantitative measurement, or an output specification in their procurement decision-making. However, VfM can be achieved with a rigorous and well governed PPP process, a two-stage (pre-qualification and tender) bid process, competitive bidding and bid selection criteria that takes into account qualitative and quantitative factors. The evidence for stage three economies suggests explicit recognition of VfM as a PPP procurement objective and the adoption of an output specification, risk allocation practices, and quantitative benchmarking enable PPP policies to better harness the benefits offered by the PPP procurement method.

8.0 Conclusion: Value for Money and Policy Design

The assessment of bidder proposals is undertaken on a subjective case-by-case basis. The PSC measures the cost or quantitative differences between the PSC and bidders including matters such as the actual risk transferred to the contractor, completion time, compliance with the government's technical requirements, and financing costs. However, government may also benchmark bidder cost proposals against the costs incurred in earlier and like projects procured either traditionally or as a PPP. However, procurement options and individual contractor proposals may possess important qualitative differences in matters such as design and construction innovation, sustainability and improved service quality, which may make it difficult to use only a quantitative comparison between bidder proposals and between the preferred proposal and the PSC. A policy that uses both quantitative and qualitative criteria to evaluate proposals for contractor selection purposes provides government with better information to make an informed decision than a policy that does not possess these characteristics.

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Table 2: Malawi, Kenya and Mauritius

Criterion	Malawi	Kenya	Mauritius
Name of policy reviewed	PPP Bill 2010 http://www.malawilii.org/files/mw/legislation/bill/2010/3/public_private_partnership_bill_2010_final_copy_84896.pdf	PPP Bill 2012 http://www.kenyalaw.org/klr/fileadmin/pdfdownloads/bills/2012/The_Public_Private_Partnership	PPP Act 2004 http://www.commonlii.org/mu/legis/num_act/ppa2004295.doc
How is VFM defined	No definition but reference to VFM	The undertaking of a public function of the contracting authority by a private party under a PPP results in a net benefit accruing to that contracting authority defined in terms of cost, price, quality, quantity, timeliness or risk transfer	Net benefit to the consumers in terms of cost, delivery, price, quality, quantity or risk transfer, or a combination thereof.
When does the VFM determination take place in the project initiation process	Investment stage	Early stage feasibility study	Investment stage
Does PPP Policy provide detailed guidance for government agencies?	No	No	No it outlines the process
Does the policy require preparation of a comparative benchmark or a public sector comparator (PSC)?	No	No	No, general outline only
If a PSC is required, how is it defined or what needs to be done? (only want reference to the definition and instruction)		Not stated	
Transaction threshold in local currency or USD?	No threshold stated	No threshold stated	No threshold stated
Is a VFM test required for specific industry groups such as water, electricity, public transport, public buildings, roads and toll roads, health or education projects? What are the exemptions?	VfM applies to all PPPs and is required for economic and social infrastructure projects	Infrastructure	No differentiation
Oversight or governance?	Not stated	Governance	Not stated
Does VFM take into account risk transfer?	Yes	No details provided	Not stated
Any mention in the policy of competitive neutrality?	No	No	No
Does policy mention an output specification?	No	No	No
Does policy mention a PPP unit (of experienced practitioners)?	Yes, PPP Commission	A dedicated PPP Committee	Yes, PPP Unit within the Ministry

Table 3: South Africa, Tanzania and Zambia

Criterion	South Africa	Tanzania	Zambia
Name of policy reviewed	Treasury Regulation 16	PPP Act regulations 2011 http://www.tanzania.go.tz/pdf/123456.pdf	The PPP Act 2009 http://www.zambialii.org/files/zm/legislation/act/2009/14/ppa2009295.pdf
How is VFM defined	How much it will cost for the institution to provide infrastructure and services compared to the costs of a PPP. If the comparison shows that a PPP is more cost-effective, the difference in cost between the two scenarios is known as VFM	No definition provided	Net benefit to agency or consumer in terms of cost, price, quality, quantity and risk transfer
When does the VFM determination take place in the project initiation process	Investment stage	Investment stage	Investment stage
Does PPP Policy provide detailed guidance for government agencies?	No, it outlines the key issues for justifying as a PPP	Yes	Yes
Does the policy require preparation of a comparative benchmark or a public sector comparator (PSC)?	Not stated	Yes	Not stated
If a PSC is required, how is it defined or what needs to be done? (only want reference to the definition and instruction)		Contained in the feasibility report	Not stated
Transaction threshold in local currency or USD?	Not stated	Not stated	Not stated
Is a VFM test required for specific industry groups such as water, electricity, public transport, public buildings, roads and toll roads, health or education projects? What are the exemptions?	VfM required for all PPPs	All industries	VFM test applied to all PPP transactions
Oversight or governance?	Not stated	Agency monitoring and reporting	Not stated
Does VFM take into account risk transfer?	Not stated	Not stated	Yes
Any mention in the policy of competitive neutrality?	No	No	No
Does policy mention an output specification?	Yes	No	No
Does policy mention a PPP unit (of experienced practitioners)?	National Treasury PPP Unit	Coordination and Finance Units provide this role	PPP unit and Council and Technical Committee