United Arab Emirates
Ministry of Finance

Federal Government

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Chapter One
Introduction
Preface:

For the purpose of regulating the operations and activities being carried out by different Federal Entities according to the best international standards and practices, Ministry Of Finance “MOF or The Ministry” has developed this Manual to enhance investment opportunities and promote the efficiency and effectiveness of governance and risk management in order to diversify development mechanisms of strategic infrastructure projects and improve the quality of services through entering into partnership agreements with the private sector.

The objective behind preparing this manual by The Ministry is to document the general frame of guidelines and procedures relating to partnership contracts between Federal Entities and the private sector according to the provisions of Article No. (48) of the Cabinet Resolution No. (32) of 2014 concerning the procurement and warehouse management regulations at the federal government.

This Manual presents a high-level framework for the life cycle of the partnership with the private sector. However, the Federal Entities shall perform more specialized and in-depth research and studies regarding the financial, technical and legal issues, including the legislative environment and to coordinate closely with MOF Technical Bureau which is responsible for supervising the PPP contracts prior to entering into partnership contracts with the private sector, as the nature and life cycle of the project, documents, studies, risks, contracts, and contracts management differ from one project to another.

There are several factors that will lead to a successful partnership with the private sector. The most important factors are the political stability and the maturity of the legal and legislative environment, in addition to enrolling qualified human resources who are experienced in developing, managing and implementing partnership contracts with the private sector. This is in addition creating links between the legislations and systems and the governance concept as they both have various dimensions featuring with administrative, legal, economic, and social aspects that they all meet in common points based on the principles of transparency, disclosure, liability, equal rights of stakeholders, and responsibility determination with a view to promoting the efficiency of resources utilization, strengthening the competitiveness, attracting financing
sources and expanding projects to create new job opportunities and support the economic stability.

Various types of partnerships with private sector and the contracts governed by will provide modern means and channels that would enable the Federal Government to give the way to real investment opportunities for the private sector in order to participate with its capital, various experiences and creative ideas in implementing major strategic projects, which have been carried out by the State until recently. Moreover, the Government retains at the same time its authorities to supervise the implementation of these projects and to evaluate the quality and efficiency of implementation through judging the project outcomes.

The global experiences have proved that the PPP contracts with the private sector result in raising the efficiency and effectiveness of performance, promoting the level and quality of services, reducing the cost, achieving optimum utilization of resources through innovation, enhancing competition, stimulating economy and assuring the interests of the society members.

Among important reasons of resorting to partnership approach with the private sector are to distribute the project’s risks between the public and private partners, ensure implementing the project within the agreed period and expenditures, avoid waiting for financing, determine in advance all or the total operational and capital expenditures in the budget, enhance the service quality and promote transparency.

Furthermore, the benefits of Public-Private Partnership “PPP” are not only limited to the Federal Entities, but it can include society members on the State level, contributing to activate the decentralization and regional growth.

The UAE Government is looking forward to achieve a great benefit for the society members, the state, the private sector and the entire national economy through implementing strategic development projects by virtue of partnership contracts with the private sector. Meanwhile, the Government realizes the extent of complications related to implementing these projects as well as the challenges that may be faced, especially in the first phases of implementation. Therefore, providing this Manual is considered the first practical step and serves as an open invitation to the private sector to participate effectively and contribute positively in supporting the State’s efforts in developing the major strategic projects and supporting the national economy. This goal can only be
achieved through deep rooting transparency and governance principles, diligence on part of all relevant stakeholders and concentrating efforts to implement the partnership with integrity and in a manner achieving the supreme interests of the State and the society members.
Introduction

1.1 Definitions

For the purpose of this Manual, the following words and expressions shall have the meanings assigned thereto, unless the context otherwise requires:

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>The State</td>
<td>United Arab Emirates</td>
</tr>
<tr>
<td>The Law</td>
<td>Federal Decree-Law No. (8) For the year 2011 regarding the rules of preparing the general budget and the final account.</td>
</tr>
<tr>
<td>The Ministry</td>
<td>The Ministry of Finance</td>
</tr>
<tr>
<td>The Minister</td>
<td>The Minister of Finance</td>
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</tbody>
</table>
| The Federal Entity          | **1-** The Federal government ministries and bodies that are subject to the provisions of the Federal Decree-Law No. (8) of 2011 regarding the rules of preparing the general budget and the general statement.  
**2-** The independent federal entities that are subject to the provisions of the Federal Decree-Law No. (8) of 2011 regarding the rules of preparing the general budget and the final account and/or the provisions of the Cabinet Resolution No. (9) of 2014 regarding the regulation of unified financial and accounting policies for the independent Federal Entities. |
<p>| Competent Authority         | The competent authority in the Federal Entity according to the law of establishing and regulating each of them.                             |
| Financial and Economic Committee | A permanent ministerial committee reporting directly to the Cabinet approves the projects and initiatives studied and evaluated by the Technical Bureau and submits its opinion in this regard before referring the same to the Cabinet for final approval. |
| Technical Bureau            | An office reports to the Minister of Finance and consists of experienced and competent financial, technical and legal consultants in charge of providing financial, technical and legal support to the Federal Entities that wish to implement strategic projects through partnership with the private sector. |
| Public-Private Partnership  | An agreement between a Public Sector Entities and a Private Sector Companies to share risks and opportunities in the joint commercial projects involving providing public services. |
| Governance                  | A set of laws, regulation, decrees, principles and general controls aiming at achieving the quality and excellence of performance by selecting proper and effective ways to achieve plans and goals. Therefore, governance means application of regulations that control the relationships between the key parties affecting the performance. |</p>
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tbody>
<tr>
<td>The governance aims at achieving justice, integrity, liability and transparency, enhancing the performance and ensuring the interests of the society.</td>
<td></td>
</tr>
<tr>
<td>Risk</td>
<td>An event causing the real conditions of the project to differ from those that are assumed and based on the expected project cost.</td>
</tr>
<tr>
<td>Risk Assessment</td>
<td>Determination of the likelihood of the specified risk occurrence and its consequences or results, if occurred.</td>
</tr>
<tr>
<td>Risk Analysis</td>
<td>Determination of all the risks related to the project.</td>
</tr>
<tr>
<td>Risk Mitigation</td>
<td>An attempt to reduce the likelihood of risk occurrence and the degree of its consequences on the affected entity.</td>
</tr>
<tr>
<td>Risk Distribution</td>
<td>An expression means that the parties to the PPP contracts jointly bear and manage the risks, where each party manage the risks which it has the experience in managing and handling thereof.</td>
</tr>
<tr>
<td>Design Risks</td>
<td>Risks related to defects or deficiencies in the project designs. For example, the project design does not meet the objectives or provide the contracted services.</td>
</tr>
<tr>
<td>Construction Risks</td>
<td>The risks related to the project construction or implementation period. These risks can be divided into more specific sub-groups to include the risks resulting from delay in supplying equipment or obtaining the permits and licenses required to handover the project site to the investor, or from the operational loss risks resulting from not handing over the project by deadline etc.</td>
</tr>
<tr>
<td>Operational Risks</td>
<td>Represents the risks related to the operational period of the project, such as the risks of the project need to spend maintenance expenses much higher than the planned expenses in order to ensure the operation efficiency and effectiveness or to ensure the continuity of the project for the expected period.</td>
</tr>
<tr>
<td>Value For Money</td>
<td>The optimum combination between the total cost of the project and the return on investment throughout its entire life cycle, taking into consideration the operational costs, the environment protection, sustainability and the benefit to for the Federal Entity and the State.</td>
</tr>
<tr>
<td>Total Estimated Cost</td>
<td>The cost estimated to implement the project according to the detailed feasibility study approved by the competent authority. It includes, but not limited to, all the designs, construction, maintenance and other necessary expenses required ensuring the optimum use of the project.</td>
</tr>
<tr>
<td>Term</td>
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<tr>
<td>Feasibility Study</td>
<td>A set of activities and successive phases consisting of a number of accurate and comprehensive studies and data with a view to estimate the viability of the investment project to achieve the desired objectives. The feasibility study takes into consideration, for example but not limited to, the financial, technical, legal, economic, environmental and sustainability aspects.</td>
</tr>
<tr>
<td>Financial Study of the Project</td>
<td>It represents one of the feasibility study components and means preparing financial data and analysis that show the expected cash flows throughout the life cycle of the partnership project. These studies shall be designed in a flexible manner that would enable to achieve clear and accurate outcomes in case of changing the assumptions as well as clarify the impact of those changes. The financial study includes risk analysis, costs and its distribution and the expected financial statements.</td>
</tr>
<tr>
<td>Internal Rate of Return “IRR“</td>
<td>It represents one of the factors used in assessing the investment proposals, and depends on calculating the project’s cash flows. It is considered one of the common methods used to compare between a set of projects to select the best one. It is defined as the discount coefficient that makes the output of “the current positive value of cash flow” minus “the negative value of cash flow” equals to zero. In general, if the IRR exceeds the project financing cost, it shall represent an added value and the project is accepted and vice versa.</td>
</tr>
<tr>
<td>Investor</td>
<td>A local or foreign private company (or group of companies) registered under the Commercial Law in the state. The Federal Entity contracts with this company to carry out a strategic contract through the PPP contracts program.</td>
</tr>
<tr>
<td>Project manager</td>
<td>A person or entity designated by the Federal Entity, which has a sufficient ability, efficiency and experience to manage the PPP contract with the private sector from the project commencement until its handover and closure.</td>
</tr>
<tr>
<td>Technical specialist</td>
<td>A person works for the Technical Bureau and plays a vital role due to his abilities to manage the PPP contract as well as his experiences and skills that enable him to provide technical support to the Federal Entity concerned with the PPP contract. He also assists the office officials in the technical assessment of the outcomes provided by the project consultant.</td>
</tr>
<tr>
<td>Project Consultant</td>
<td>An entity (Person(s) or a company) officially appointed by the Financial and Economic Committee. It has the proper experiences, qualifications and skills necessary to provide the technical support in its capacity project consultant. The project consultant’s services include drafting and preparing the PPP contract and helping the parties to understand thereof prior in preparation for signing it.</td>
</tr>
</tbody>
</table>
1.2 The Manual Objectives

The Ministry has prepared this Manual with a vision to inform the stakeholders with the basic concepts and issues related to joint projects in general, and to provide guidance to the Federal Entities that may implement the partnership projects and the private sector’s investors in particular. Preparation of this Manual falls under the scope of the State’s efforts to motivate the joint projects between the Federal Entities and the Private Sector.

Users of this Manual shall comply with the following:

- The objective of this Manual is to clarify procedures and some tools that shall be used in designing and implementing joint projects.
- The Manual may be supplemented with regulative and executive instructions and memos.
- This Manual does not include answers for all the questions related to the partnership as it only provides a wide and high-level practical frame.
- This Manual summarizes, in a high-level frame, the general guidelines and the main and important procedures that shall be followed by the Federal Entities - upon which this Manual provisions are applicable - when there is a desire to implement projects and initiatives by virtue of partnership contracts with the Private Sector. The Manual also provides important guidelines to the investors in the private sector, who are willing to enter into partnerships with the Federal Government in order to implement strategic projects.
- The continuous reference to the guidelines stipulated in this Manual ensures permanent harmony and consistence in its application, which is beneficial to the Federal Entities concerned in particular and the State in general

**Manual Preparation Goals:**

1- Developing clear guiding work procedures for the mechanisms of concluding the PPP contracts between the Federal Entities and the Private Sector in relation to the major strategic projects and their governance and control in order to ensure efficiency and effectiveness of the work and optimize the utilization of the available financial resources.
2- Documenting and unifying the mechanisms, standards and terms of
concluding partnership contracts between the Federal Entities and the private sector.

3- Clarify monitoring basics for managing and implementing partnership contracts with the private sector.

4- Clarifying the contracting parties’ rights and liabilities under the PPP contracts.

5- Serving as a main reference for all the entities concerned with the implementation of the PPP contracts to ensure the proper and ongoing application of the approved guidelines.

6- Facilitating the training process of the new employees on functions related to partnership contracts with the private sector.

1.3 Manual Approval

- His Excellency the Minister shall initially approve the guidelines and procedures included in this Manual.

- The Cabinet has the discretion authority to grant the final approval of this manual.

1.4 Manual Responsibility

- The Undersecretary/ Director General at each Federal Entity shall be responsible for ensuring compliance with guidelines and procedures stipulated in this Manual, its distribution and updating it with the new amendments once approved by the Competent Authority.

1.5 Manual Implementation

A- The provisions in this Manual shall be applied as of the date specified in the Cabinet Resolution.

B- The provisions in this Manual shall be applied on all processes classified under the PPP contracts outlined in this Manual, except for the following:

1- The outsourcing of Minor services or operations e.g. guard and security services, cleanliness, experts and consultants, employees necessary to support some functions, computer maintenance services, programing and improving systems and applications,
accounting services, collecting fees and other simple services.

2- Franchising contracts.
3- Military or security nature procurement contracts

C- In case conflict arise between the provisions of this Manual, or the implementation of the PPP contract and any other law applicable in the State, the provisions of the Federal Law or the Federal Decree-Law shall prevail. The contraction may be completed only after obtaining a formal exception or removing the conflict.

D- The competent authority in the Federal Entity or its delegate shall apply and control the application of the guiding procedures stipulated in this Manual when planning to implement major strategic projects under PPP.

E- In case of a dispute concerning the interpretation or application of any of the guidelines or procedures included in herein, the Ministry shall be consulted.

F- The internal audit regulatory units in each Federal Entity and State Audit Institution shall be responsible for ensuring the Federal Entities’ adherence to apply the guidelines and principles approved in this Manual, monitoring any infringements or breaches and providing recommendations to support the internal control and monitoring systems on the implementation of projects under the PPP contracts with the private sector.

1.6 Manual Update

- The Ministry shall review, update and amend this Manual on a regular basis (annually) or at the proper time according to the circumstances and if there are reasons thereto.
- The suggestions to improve and update this Manual, any modification in some procedures contained herein or introduction of new procedures shall be submitted to the Ministry in writing to be considered and discussed for appropriate decision according to the regulatory procedures pertaining thereto.
• The guidelines contained in this Manual shall be amended according to the procedures followed in the Federal Government
• The Ministry shall be mainly responsible for reviewing the guidelines of this Manual in order to update and/or amend thereof. However, any Federal Entity can submit the update and amendment suggestions according to the above-mentioned mechanism. Therefore, after the approval of any update or amendment to this Manual, the Ministry shall verify and take into account the following issues:

1- Modifications, updates and amendments to the work guidelines and procedures mentioned herein are to be added to the Manual
2- Updating or amending the relevant procedures (if necessary) to ensure that procedures followed are consistent with the amended guidelines.
3- Informing all the Federal Entities with the updates made to the Manual clearly, in an appropriate and timely manner.
• Any questions or inquiries on amending or updating the Manual shall be addressed to the Ministry.

1.7 Organisational structure of partnership contracts:
The value and complications of the partnership process and its difference from the traditional procurement and outsourcing transactions carried out by the Federal Entities require creating an effective organizational structure attracting competent and experienced cadres with wide and new knowledge of the PPP contracts entered into with the private sector in terms of financial, technical, legal, and regulatory aspects related to risk and contract management. Moreover, it require applying procedures and standards different from those that are applied by the Federal Entities according to the Cabinet Resolution No. (32) of 2014 on procurement regulation and storehouse management in federal government. Hence, the formation of a Technical Bureau is considered a key factor for the accumulation of the expertise required to provide the technical support, and for coordination and collaboration with different Federal Entities in considering and monitoring the implementation of the future joint projects with the Private Sector.
The global experiences, the international best practices, and the World Bank recommendations demonstrated the need to form a Technical Bureau dedicated to follow up and supervise the study and management of the PPP contracts between the public and private sectors. Indeed, the existence of this office is considered a key component of the success of the experience of applying partnership contracts. In order to ensure the success of this office to provide its services and achieve the objectives for which it has been formed, the concerned Federal Entity shall be involved in its work, in particular the decision-making process regarding designing and outsourcing the project and later in monitoring the implementation and evaluating the outcomes.

The Technical Bureau shall be established in the ministry of finance and will report directly to His Excellency the Minister. All proposals of the projects and initiatives that may be implemented by partnership contracts system shall be referred by the Technical Bureau to the Financial and Economic Committee, which in turn submit them to the Cabinet for final approval before proceeding with their implementation.

Hereunder a summary of parties concerned with implementing partnership contracts between Federal Entities and the private sector

1- The Cabinet
2- Financial and Economic Committee
3- Technical Bureau
4- Federal Entity concerned with the project
5- The private sector - Partner/Company that shall implement the Project

**Work Mechanism of Technical Bureau when studying the developmental projects and initiatives:**

**Overview:**

The Technical Bureau shall elaborate an action plan based on studying the developmental projects and initiatives that can be implemented through PPP, which are referred to it by Federal Entities or by the Financial and Economic Committee, focusing on giving the priority to the most important and more persisting projects to the government and society members.
This priority is assessed through analyses of the project economic conditions, and the project shall be of developmental and strategic importance to the State, and falls under the scope of the key sectors given high priority by the State; these sectors are mentioned below. This will contribute in enforcing economic diversity and motivate the role of Private Sector in participation with the Public Sector.

**Key sections of the action plan**

1- **Sector Identification.**
Many studies and analyses were performed for spending and spending policies on health and education sectors, for instance. Such studies, analyses, and other environmental and legal analyses and strategic plans in the State contribute in identifying priority sectors for executing projects under PPP. Six sector can be selected, for example but not limited to, as key sectors to implement PPP projects, such as: healthcare, education, property, the environment, transportation, water, and energy. These analyses revealed the major national development goals such as economical diversity, creating job opportunities, and promoting the private sector participation.

3- **Sector Analysis**

Additional and more detailed studies and analyses shall be performed to assess each sector in order to determine its exact requirements in light of the system of PPP projects, and also to determine the projects in each sector that fit to be offered under a partnership. In addition, there are other analyses such as supply and demand analyses, the capabilities of Federal Entities, and the private sector efficiency.

Based on these studies and analyses, a list of relevant projects that can be implemented in accordance with the system of partnership with the private sector is prepared.

4- **Projects classification according to their priorities:**

The Technical Bureau shall prepare specific performance criteria for evaluating the partnership projects, which have been identified by analytical studies, and classify them by priority to ensure the evaluation of projects according to the
vision and strategy of the Federal Government and its future development plans.

To ensure the successful implementation of projects, the Technical Bureau shall perform consultancy and full and in-depth coordination with all of the Federal Entities as well as local Emirates Governments to ensure the highest levels of coordinating for the spending policies and the unified development vision at the State level.

5- Project schedule and key performance indicators:

Work mechanism shall include a detailed timetable for the implementation of the selected partnership projects.

Clear, specific, and detailed indicators were identified to measure the success of the partnership projects action plan by using the key economic performance indicators to measure the social and economic impact in general, while the key performance indicators for projects are used to measure the progress of the project performance in light of the specific relevant mechanisms.
Chapter Two

Overview on Public - Private Partnership Contracts
2. Overview on the PPP contracts

2.1 Nature of Public-Private Partnership

The PPP contracts shall be on long-term basis, and aim at providing public services and establishing infrastructures through utilizing the private sector’s efficiency, financial potentials and expertise. It is not a capital-based partnership nor a profits-based partnership, but a partnership in risk sharing, where the public sector transfers some of project risks to the private sector and retains others. The privatization involves transferring all project risks to the private sector, where the State’s role is limited to regulate and monitor implementation; while the private sector partner (the project company) bears both profit and loss risks. In the case of management or management and operation contracts then the State’s retain all the risks, while the private sector's role is limited to providing a certain service in return for charges with some incentives. However, the PPP shall include all kinds of risk-based partnership according to ratios varying from project to another. For example, in partnership contracts, the private sector shall bear the risks of development, design, construction and operation, exploration, finance and inflation, whereas the public sector shall bear the environment, regulation, policy and tariff risks. Both parties may bear the risks relating to force majeure, supply and demand, personnel relations, profit and loss, technological development, etc.

The second element that distinguishes partnership from traditional procurement deals or simple outsourcing contracts is identification of outputs rather than inputs, i.e. the State does not buy (or build at its own expense) the assets required for providing the public service as is the case in traditional outsourcing, but instead it shall buy the output service. For example, the State shall not buy (or build at its own expense) a power plant, instead it shall buy electricity that meets its needs to provide the service to the citizen.

The graph below illustrate the relation between public sector and private sector:
2.2 Definition and characteristics of Joint projects

The joint project shall be defined as any public project with an economic nature, in which the private sector contributes through finance, management, and at least one of the following processes (establishment, construction, development, restoration, preparation, maintenance, rehabilitation, and operation). Accordingly, any contract entered into by the Federal Entity and not including operations listed above shall not be considered a PPP.

Theoretically, there is no standard definition of the public-private partnership, however, and based on the different definitions, it might be defined as a contract between a party from the public sector and a party from the private sector, under which the private party performs a public service or project. The risk distribution and outputs determination are the pillars of the PPP.

- **Risk Sharing**
  Considering PPP in terms of risk sharing helps to define the partnership as a borderline between the management contracts on one hand and the privatization on the other. Traditional management and operation contracts do not involve any transfer of risks to the private sector, while privatization, especially full privatization (the sale of a public project) transfers all risks to the private sector.

  Risk Sharing between the public and private partners is the key element of this partnership, so each party shall bear the risks it can handle and manage. For example, the private sector shall bear risks associated with development, design, construction, operation, exploration, inflation and fluctuations of currency or oil prices, while the public sector shall bear environment,
regulation and economic development risks. Both parties may bear the risks relating to force majeure, supply and demand, personnel relations, profit and loss and technological development.

- **Output Identification**

  The outputs of partnership contract shall be identified through tendering, where the Federal Entity shall identify specifications to be obtained from the project without specifying the way of handover. Therefore, the bidder shall have full flexibility in how to obtain these specifications. This allows utilizing all the benefits the private sector can add to the project by making all variables, not just the price, subject to auditing.

  Joint projects differ from the traditional outsourcing in which the Federal Entity identifies the inputs, so all project variables will be fixed, except the price based on which the project winner is determined.

  Moreover, the concept of partnership differs from procurement, delivery of service and work carried out as per the Cabinet Resolution No. (32) of 2014, where no deal can be made unless the necessary financial provision is available in the budget. In some partnership contracts, the private partner finances the project without including all investment expenses needed for the project in the budget of the first year, but they are distributed over the contract term in form of payments paid to the private partner. Payments are usually variable according to the size or quantity of the output.

2.3 **Joint project**

The joint project is not just a project in which both public and private sectors share implementation, such as service projects which the Federal Entities are currently implementing with the private sector. Instead, the joint project, which this Manual seeks to achieve, is of economic nature and reflects risk-based partnership, where the public sector shall transfer a large part of the project financial, technical and operational risks to the private sector.


2.4 Partnership Contract

Joint projects are often involve contractual and financing-complex transactions. Therefore, the contract might consist of a set of contracts, commitments, guarantees and appendices governing the contractual relationship between the Federal Entity, the project company and any other stakeholder such as the guarantor or financing banks, Federal Entities or local governments on which the project implementation may cause some consequences or tasks and duties. Therefore, the signatories of the PPP contract may be numerous and may vary from a partnership contract to another. In some cases, it may be required to sign a series of contracts and additional memorandum of understandings necessary for the success of the project.

2.5 Partnership at the Level of Decentralization

Committing Federal Entities to effectively coordinate in advance with the Technical Bureau on the implementation of their major strategic projects in accordance with the provisions of this manual, -knowing that some Federal Entities may have experiences and competencies necessary to implement joint projects with the private sector independently form the Technical Bureau-, to enable them to benefit from the experience of that Office in studying projects and utilizing the transparent procedures in selecting the proper partner(s) from the private sector by attracting a larger number of investors. This encourages the private sector to enter into joint projects with Federal Entities and thus enhances the services provided by these entities to the society.

Technical Bureau Technical Bureau This approach contributes to motivate and achieve an important aspect of economic decentralization and constructive coordination and cooperation between the various Federal departments, and not a return to centralization as it may appear. The Federal Entities’ need to fully coordinate and cooperate with the Technical Bureau is, as mentioned before, made for a public interest and is essential during the early (3-5 years) of partnership contracts implementation in the State to enhance the success chances of the projects to be implemented, and create an investment environment attracting the private sector.
2.6 The most important success factors of public-private partnership

The PPP is an advanced model for executing works or providing services to the society in innovative ways, however, this concept is still new in the State in particular and the Arab region in general. Global experience has shown that the success of PPP is based on the following key factors:

- A modern legislative and regulatory framework for the partnership, which provides clarity in the procedures and the relationship between the public and private sectors.

- A central Technical Bureau that includes cadres concerned with partnership with the private sector and have necessary expertise in the areas of financing, negotiation, contracting and mega projects management.

- Ensuring the right of Federal Entities involved in the project to effectively communicate with the Technical Bureau to avoid any surprises, obstacles or objections in the later stages.

- Securing a high degree of transparency and governance since the participation costs in partnership tenders, in which the project company shall secure finance, project design and other activities, outweigh the participation costs in traditional outsourcing tenders in which the supplier’s activity is limited to price the materials / equipment and the workforce.

- Adding provisions, conditions and clear and inclusive performance measurement standards to partnership contracts to ensure total equality between the service beneficiaries and the public interest, taking into consideration the rights of investors and ensuring the government’s ability to monitor the partner’s performance and its commitment to the regulatory legislations to the service provision and terms of partnership contract.

- Not granting preferential rights and conditions to any category of the beneficiaries of the service provided by the private partner unless a prior approval of the Competent Authority is obtained and in accordance with the rules and controls pre-agreed between the government and the private partner.
2.7 The most important motivating factors for concluding PPP contracts

1. Lack Government’s ability or resources to perform services or projects required to achieve sustainable development plans.
2. The private sector’s ability to improve the quality of the required services or works, in comparison with serving these services or works by the Federal Entities.
3. The private sector’s ability to accelerate the implementation of the project or service, in comparison with implementing such service or project by the Federal Entity.
4. Reducing the pressure on the public budget and allowing the government to manage the cash flow more efficiently.
5. The Federal government's desire to share risks and returns with a partner from the private sector, enhancing the governance principles regarding how to efficiently and effectively manage the resources.
6. Stimulating the competition between suppliers from the private sector, resulting in reducing the cost of service provision.
7. Lack of regulatory or legal objections for involving the private sector in the provision of a service or a project.
8. The ability to measure and pricing the service easily and the presence of clear and specific performance indicators.
9. The ability to recover the cost of the service by applying fees paid by the end user, in relatively short time.
10. Achieving the higher value for the invested money.
11. Partnership with the private sector shall create opportunities to stimulate local economic growth.

2.8 When partnership with the private sector is applicable

There are several factors and criteria that shall be taken into consideration and make sure that the results thereof benefit the public interest before considering PPP. The following are the most important cases and recommended standards by which the partnership shall be viable option in the presence of one or more thereof:

1. Federal Entities’ financial resources or experience alone cannot provide the services and projects.
2. The private partner can raise the quality level of service in comparison with what can be provided by the Federal Entities depending on their own capabilities.

3. The private partner can implement services or projects faster than the government.

4. The private sector participation in the services provides an opportunity of innovation and creativity.

5. Creating an opportunity to increase the competition between the potential private partners. This reduces the cost of providing public services.

6. Lack of regulatory or legal objections for involving the private sector in the provision of service or project.

7. The outputs or service outcome can be easily measured and priced.

8. The cost of the service can be restored by applying or imposing fees on the user.

9. Using the partnership may provide opportunities to increase the economic growth.

If any of the above-mentioned factors or criterion is not available, the PPP shall not be considered.
2.9 Advantages of successful PPP

1. Distributing risks; the State (Federal Entities) shall not bear all project risks, as is the case in the traditional procurement contracts.

2. Ensuring the quick implementation of the project within the agreed time and cost, since transferring design and construction responsibility to the private sector and linking payments to service provision stimulate the private sector to quickly complete the projects.

3. Improving the service quality, the global experiences prove that the quality of service in the partnership projects is better than such service quality in the traditional outsourcing. This may reflect the impact of several factors, including the existence of incentives and penalties in the contract, the productivity of workers in the private sector, and introduction of innovations in the service provision.

4. Monitoring the operating expenses with investment expenses in the budget. This secures the financing required for periodic maintenance of the traditional projects.

5. Avoiding the waiting of financing availability for numerous projects that the State may desire to implement. The partnership opens the door for launching projects, even in the lack of money for investment expenses. Thus, the urgent projects shall not be delayed.

6. Promoting the decentralization, the partnership shall allow activating the economic decentralization as the Federal Entities will be able to develop and implement developmental and strategic projects through the partnership with the private sector. The Federal Entities may not have competences and experience or adequate financing to develop such projects alone.
2.10 Review of Current Policies, Laws, and Legislation

We have to focus on and explain the importance of the Financial and Economic Committee’s role in determining the policies, laws and legislation (and gaps) which will affect any proposed project. Like any governmental project, the partnership projects shall comply with the policies, laws and official regulations. To achieve this, the competent Federal Entity and the Technical Bureau (in particular, legal experts) shall conduct the evaluation process on two tracks:

First Track: Compatibility

• Any Federal Entity desires to implement PPP shall, in coordination with the Technical Bureau, conduct a study / preliminary review of high-level policies, procedures and guidelines applicable at that time concerning the partnership with the private sector.

• The Federal Entity shall comply with and subject to all policies, procedures, decisions and legislation issued on the partnership with the private sector.

• If needed for any clarification, technical or legal support, The Ministry must be referenced.

• If there is a particular project requires, according to its nature, an exception of these policies, decisions and legislation, the executing body shall seek to obtain the approval of the competent authority through The Ministry.

Second Track: Gap Analysis:

If there are gaps in policies or decisions / regulations affecting the proposed project, the concerned Federal Entity shall do the following:

• Consulting or understanding with the concerned parties (partners) and beneficiaries of the project if it is possible to adopt the project in light of the current policies, decisions and legislation. If it is not possible, this matter shall be discussed with The Ministry to reach the possible solutions.

• When identifying a gap in the policies, legislation or decisions by the Federal Entity, The Ministry, in coordination with competent authority(s) (whether Federal and local, if necessary) shall address such gab, develop proposals and make changes.
2.11 Misconceptions about partnership with the private sector

A. Financing the project by the state is less costly

The State is able to borrow at a cost lower than the cost incurred by the private sector, as the cost incurred by the State is the sovereign debt rate, while the cost of the private sector is the money cost average, including the debt cost and the capital cost. This idea is incorrect for the following reasons:

First: Assuming that the cost of the project is same in both cases.

Second: Not evaluating or considering the project risks (such as cost increase and implementation delay) which are not included in the sovereign debt costs and borne by the State.

Third: Not including the additional cost to be borne by the State as a result of increasing the size of its sovereign debt.

Fourth: Not taking into account the benefits and positives at the level of the whole economy, which are resulted from not waiting the availability of funds for the investment spending in the State public budget.

B. The partnership will cause that the public-sector employees to lose their jobs

One of the misconceptions spread about the partnership is to say that it affects the employees of the public sector by replacing the existing employees by people from the private sector. The PPP contracts shall keep the responsibility for service provision with the public sector and thus the PPP contract determines the conditions of the current employees, if any, in terms of transition to work for the private partner or finding any other solution. In addition, the majority of partnership projects shall be intended to build and develop new infrastructure and strategic construction projects which will attract new employees, i.e. increasing employment opportunities. Few of such projects shall be related to rehabilitating constructions that basically have employees.
C. Partnership is a covered privatization

The partnership differs from privatization in several aspects including the following:

<table>
<thead>
<tr>
<th></th>
<th>Partnership</th>
<th>Privatization</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset Ownership</td>
<td>Public</td>
<td>Private</td>
<td>Privatization involves selling assets, while the partnership involves buying assets.</td>
</tr>
<tr>
<td>Risk Bearing</td>
<td>Public and Private</td>
<td>Private</td>
<td>Privatization transfers all risks and benefits to the private sector, while the partnership transfers some risks to the private sector.</td>
</tr>
<tr>
<td>Specifications of production/services</td>
<td>Public</td>
<td>Private</td>
<td>Privatization allows the private sector to freely set specifications of the production / services, while these specifications are pre-defined in the PPP contracts within solicitation.</td>
</tr>
<tr>
<td>Responsibility towards the public people</td>
<td>Public</td>
<td>Private</td>
<td>In the PPP contracts, the State shall remain responsible for providing services.</td>
</tr>
<tr>
<td>Direction of money flow</td>
<td>Form public to private</td>
<td>From private to public</td>
<td>In privatization, the State shall receive sums for transferring the project to the private sector, while in partnership, the State shall pay the private sector sums for providing a service and transferring the project to it.</td>
</tr>
</tbody>
</table>
D. Private Partner aims to realize profits upon the State’s account

All forms of partnership have a common factor where both partners are convinced that they will achieve gains or benefits from the partnership. So, in the successful partnership, both parties benefit from the partnership and the desired benefits are clear from the beginning. In other words, they share the risks and benefits. The logic of the partnership is based on the fact that each party has certain characteristics and strengths. By their cooperation, they use such strengths to build two teams which are complementary to each other.

E. The partnership is a mixed ownership of the project company

The concept of partnership mainly means sharing the risks between the public and private sectors. Often, the project company is established totally by the private partner’s financing to build and / or develop, maintain and operate the assets for the contracted term. If the public sector desires to participate in the financing, it shall have a share in the project company.

F. The State loses the control over the cost and quality

The projects implemented by the public sector are rarely subject to performance requirements similar to those in the PPP contracts. The PPP contracts keep the responsibility for service provision with the public sector which defines production / services specifications against which private partner is chosen. Moreover, the public sector is the one that follows up the contract implementation to ensure compliance with its terms. So, it can be said that the PPP contracts strengthen the public sector’s control by setting contractual solutions it itself cannot apply.
Chapter Three
Types of Partnership Contracts
3. Types of Partnership Contracts

3.1 Introduction

Partnership takes a wide range of forms varying between construction, operation, and transformation and other structures of financial and legal nature rather than technical nature to fit the characteristics of the desired project, as the requirements differ from one project to another. The main common feature between those projects is how far the private sector participates in financing and bearing risks.

3.2 Exempted contracts

Some purchase transactions that take the partnership form are exempted from applying the techniques and concepts of joint projects made with the private sector and discussed in this Manual. The most important types of these contracts are as following:

1- **Simple Outsourcing Contracts**: involve outsourcing employees to provide the technical support or services (e.g. guarding, cleaning, maintenance, or operating building or some facilities) or assigning a supplier to manage and operate minor tasks including accounting, information technology or collection, etc. Finance lease contracts may fall under this category for the lack of the private sector finance in this kind of contracts and lack of risk sharing which are the main features of partnership contracts.

2- **Franchise Contracts**: The contracts that are regulated and governed by their own laws.

3- Military or security nature procurement contracts
3.3 Most Common Types of Partnership Contracts

The below figure shows the most common types of Partnership contracts distributed as per the contract subject:
Chapter Four

Institutional Structure for Joint Projects

Management
4. Institutional Structure of Joint Projects Management

To ensure the success of PPP in the Federal Entities and to enhance the transparency and the governance, the implementation of partnership contracts shall be studied and approved according to the below institutional structure:

4.1 Cabinet and its responsibilities;

- Discussing the joint project file and taking the decision of implementing or non-implementing the project.
- Approving the bidding requirements document, including arbitration clause contained in Partnership contract.
- Appointing members of the board of directors representing the Federal Entity in the event of its shareholding in the project company.
- Receiving The ministry observations concerning the PPP contract implementation.
- Receiving the annual reports prepared by the Technical Bureau and the suggestions for joint project programs to improve and implement PPP.
- Allowing the project company to fulfill fees and allowances of partnership project in the name of and in favor of the Federal government and determining those fees and the government share therefrom.
- Issuing decisions aiming at enhancing the investment environment and filling the gaps of the application of partnership system.

4.2 Technical Bureau

The office consists of consultants specialized and experienced in the field of studying, analyzing and selecting strategic projects recommended to be implemented under partnership contracts with the private sector. It also involves technical experts and competencies in the field of financial, technical and legislative analysis to enable the Office to effectively participate in each and every phase of the project from its first start up to its financial closing. The Technical Bureau may appoint anyone it deems fit as a project consultant from those who have experience and competence in drafting and implementing partnership contracts. It also discusses the
contract details with all stakeholders and make efforts to overcome all obstacles to sign partnership contracts by stakeholders.

According to UAE Federal Government’s strategy aiming at encouraging and enhancing the partnership with private sector in developing infrastructure and implementing large-scale strategic projects, the Federal Government plans to develop a PPP program, where the Technical Bureau is considered the central coordination office for the State partnership program in order to study the development projects and initiatives. It specializes in financial and legal assessment of partnership projects and the effective participation in each project phase from its commencement to its financial closing. It also serves as the secretary of the Financial and Economic Committee, and constitutes the entity that provides the technical support to this committee by helping it in performing its tasks and taking decisions.

Technical Bureau Goals

The Technical Bureau is intended to suggest and execute the policies contributing to create an investment environment attracting capitals through involvement of private sector with the aim to benefit from its experience and competencies, to encourage the competition in the markets and to encourage development and creativity channels, while maintaining and protecting the public interest.

Moreover, the office aims to boost the development in the UAE through activating the private sector’s role in the execution of development projects of strategic importance for the national economy. This is done through improving public utilities, raising services’ quality, increasing revenues and diversifying its sources, supporting the economic development as well as the human development and providing job opportunities for national cadres. It should be noted that increasing the Federal revenues and diversifying its sources are not an goal in itself to execute development and strategic projects through PPP.

Tasks and Duties of Technical Bureau

- Study projects and initiatives submitted by the Federal Entities, assess their viability to be implemented under PPP model and prepare a report on its
recommendations to Financial and Economic Committee for further study and approval.

- Study proposals solicited by Financial and Economic Committee, assess economic and technical feasibility studies of these proposals and provide proper recommendations on tendering them for investors, including its recommendations on selection of best type of PPP model.
- Prepare or revise the legal studies of the projects to avoid any conflict with applicable laws and legislations.
- Develop and unify the concepts of partnership projects and setting (standard – technical) criteria to implement the same pursuant to the applicable laws and preparing the preliminary feasibility studies through selecting competent and qualified consultants.
- Supervising the preparation of the detailed feasibility studies and offering partnership projects with the private sector in coordination with the concerned Federal Entity.
- Provide technical support with local government entities, if required.
- Provide technical support for the concerned Federal Entity to complete awarding the projects to the winning investor and supervise the establishment of the project company, if required.
- Studying financing market mechanisms and helping in provision of financing at reasonable rates.
- Developing the project-risk matrix and control systems required to control the risks or mitigate its impacts to the minimum.
- Prepare or supervise and revise the Matrix of risk distribution among parties to partnership contract.
- Prepare standard forms of PPP contracts, which contain the main terms and conditions to be met and submitting the same to Financial and Economic Committee for approval. In addition, revising the contracts before signing thereon by the stakeholders.
- Setting up a schedule for projects’ implementation, and developing a follow-up mechanism and the major key Performance Indicators (KPIs) used to measure and assess business performance or service quality.
- Following-up the project implementation and providing the necessary technical assistance to Federal Entities throughout the project period.
- Preparing semi-annual/annual report on the proposed developmental and strategic projects and submitting thereof to the Financial and Economic
Committee for approval, in preparation for submitting the same to the cabinet for implementing or rejecting the project.

- Assessing projects that are nearing completion and submitting proper recommendations concerning them to the Financial and Economic Committee.

4.3 **Financial and Economic Committee**

The Financial and Economic Committee is a permanent ministerial committee reporting directly to the cabinet. The committee approves the projects studied and assessed by the Technical Bureau and provide its opinion on these proposed projects and initiatives before the final approval by the Cabinet.

Each Federal Entity desiring to offer a project for investment or to contract with any investor for implementing projects on state-owned properties or on a land granted to the state by the local government shall submit this project to the Technical Bureau in order to submit thereof to the Financial and Economic Committee for considering all the technical, financial, legal and environmental aspects and other aspects the Committee deems necessary. The committee issues the initial consent on offering the project to investment and submits it to the Cabinet for the final approval.

**Tasks of Financial and Economic Committee:**

- Developing the general policies of projects and initiatives of strategic importance for the national economy.
- Approving initially the scope of projects and initiatives before their offering for investment.
- Referring the projects and initiatives to the Technical Bureau for study and prepare a report thereon.
- Identifying the Federal Entity concerned with the project to participate in offering the project and signing the contract.
- Granting the federal contracting entities the final approval on the contract termination or termination of the public interest.
4.4 Project Committee

A committee formed under a decision of the Minister/the concerned chairman in order to manage the project awarding process. The committee is headed by the Undersecretary/ Director General of entity concerned with the project and it involves a representative of the Technical Bureau. The committee shall do the following:

- Forming a team supporting the committee in performing its tasks. The Technical Bureau is the main component of this team.
- Preparing the initial studies that discuss the technical, economic, legal and financing aspects of the joint project, including the extent of investors’ interest and the possibility of attracting the necessary finance, and submitting a report containing a recommendation in this regard to the Technical Bureau for final review and then submitting this report to the Financial and Economic Committee.
- Launching the procedures of selecting the private partner through announcing a public invitation for those who would like to win the joint project.
- Defining the qualification criteria and providing candidates with the necessary information and instructions.
- Receiving the qualification applications and submitting the candidate qualification reports to the Technical Bureau.
- Informing the candidates with qualification results.
- Interviewing the qualified candidates and financing entities in order to reach a comprehensive vision defining the best technical requirements, practical means and financial structures to implement the joint project.
- Preparing the bidding requirements document and its attachments and informing it to the qualified candidates after obtaining the approval of the competent minister and ratification by of the Cabinet.
- Receiving and opening bids and asking for necessary clarifications and complete the deficiencies.
- Assessing technical bids that meet the requirements and then opening and assessing its financial proposals.
- Submitting the competitor classification report containing the recommendation of the best bidder to The Ministry to be submitted to the Financial and Economic Committee.
• Negotiating with the owner of the best bid or the best two bidders with a view to improve the bid technically and financially based on an authorization from the Financial and Economic Committee.
• Informing the candidates the final result of selection process.

4.5 Concerned Federal Entity

The Minister/Chairman of the Federal Entity concerned with the project shall make suggestions and recommendations to The Ministry on the projects falling under the duties of its ministry, independent entities or public institutions subject to its supervision and which it desires to implement the same through partnership with private sector, in order to be studied and submitted to the Financial and Economic Committee for approval.

As appropriate, the concerned Federal Entity shall form what may be required from the following teams to follow-up and supervise studying and implementing the PPP contract:

A- Steering Committee
B- Project management office/ team
C- Independent consultant

Federal Entity and its team shall:

• Propose projects that can be executed Under PPP contracts, including the initial studies.
• Form the Project Committee and appointing its representatives in the technical team.
• Prepare, studying and revising approved bidding requirements document.
• Play a coordinating role and providing the technical support when carrying out the negotiation between the Project Committee and the best bidder.
• Signing or ratifying the PPP contracts with the investor or the project company.
• Follow-up and control the project implementation, assessing outputs and submitting periodic reports in this regard to the Financial and Economic Committee.
4.6 Private Sector

It is represented by the project-winning partner, which may be a company or an alliance of companies entrusted with implementing the project pursuant to terms and conditions of the contract entered with the Federal Entity and specifications and requirements approved in bidding requirements document.

4.7 Project Management Office (optional)

A specialized company may be appointed to manage the project where needed. Financial and Economic Committee shall be responsible for assessing this matter and take the relevant decision, provided that the suggestion shall be included within the recommendations submitted to the Cabinet.

The below table summarizes the most important tasks and responsibilities of each stakeholder in partnership system in the Federal Government.
Summary of Tasks:
1. Discussing joint project file and taking the decision of whether or not this project will be implemented.
2. Approving the terms of reference, including arbitration clause contained in joint contract.
3. Appointing the board of directors’ members representing the Federal authority in the event of shareholding in the project company.
4. Receiving the notes of the Ministry concerning the execution of partnership contract.
5. Receiving the annual reports prepared by the Technical Bureau and the suggestions on joint project programs.
6. Allowing the project company to fulfill losses and allowances of the joint project in the name and the account of federal government and fixing those losses and the share of government therein.
7. Issuing decisions aiming at sustaining the investment environment.

Tasks:
1. Developing general policies for projects and initiatives of strategic importance for national economy.
2. Issuing initial approval on the scope of projects and initiatives before announcement and offering for investment.
3. Referring projects and initiatives to the Technical Bureau for the study.
4. Selecting deferral entity to be concerned of the project.
5. Issuing the final approval to the general contractual entities.

Tasks:
1. Conduction survey and initial studies to define developmental projects to be offered and referred to Financial and Economic Committee.
2. Studying projects and initiatives submitted by federal entities and referred by Financial and Economic Committee.
3. Supervising the preparation of detailed feasibility studies and offering operations of partnership projects with private sector and coordinating with concerned Federal authority.
4. Preparing biannual/annual report on developmental and strategic projects and submitting it to Financial and Economic Committee for approval through the Minister.

Tasks:
1. Preparing the initial studies discussing technical, economic, legal and financing aspects.
2. Introducing procedures of selecting the private partner through an announcement of public invitation.
3. Receiving and opening bids and asking for the necessary explanation and remediating deficiencies.
4. Assessing technical bids satisfying the conditions then opening and financial proposals and reporting competitor classification including the recommendation of the best bidder.

Membership:
- It is formed under a decision of the concerned Minister/chairman under
- Representative of the Technical Bureau.
- Team work if needed and as per specialisation.

Tasks:
1. Assisting Project Committee in its tasks.
1- Preparation phase: this phase starts from the date of endorsing the PPP contract by the Cabinet until the completion of building, construction, development, reinstatement and rehabilitation, preparation and/or maintenance as stipulated in partnership contract.

2- Operation phase: This phase starts from the date of commencing operations and service provision until the completion thereof as stipulated in partnership contract.
Chapter Five

Project Life Cycle – Phase I

Project Proposal & Preparation
5. Stage I- Projects Proposal and Preparation

- **Project life cycle**

  **Phase I: Projects proposal and preparation**

  - **Federal Entity**
    - Submit initiatives and proposals of joint projects, together with a preliminary feasibility study, to the Technical Bureau
    - Start

  - **The Ministry/Technical Office**
    - Receiving and reviewing proposals and auditing the documents attached thereto.
    - If no deficiencies are found:
      - Coordination with the concerned entity
      - Study proposals and provide feedback within 60 days
      - Initial approval
      - Forward it to the Cabinet
    - If deficiencies are found:
      - Updating and revising the study in coordination with the concerned entities and then submitting it to the Financial and Economic Committee
      - Any Comments
      - Initial approval on the project and Forward it to the Cabinet

  - **Financial and Economic Committee**
    - Add the project to the National PPP program and form the Project Committee
    - Phase I End

  - **The Cabinet**
    - Studying the project and taking the suitable decision thereon.
    - Initial approval
    - If NO, Reject Project
    - If YES, Initial approval on the project and Forward it to the Cabinet

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Phase I: Project Proposal & Preparation

5.1 Introduction:
This chapter outlines the guidelines relating to the phase of proposing and preparing PPP initiatives and proposals. As discussed above, the provisions below and those stated in the subsequent chapters are for indicative purposes. Thus, the federal entities and Technical Bureau are required to review such provisions and peruse to other procedures or practices that may be recently applied in any phase of the project life cycle.

The Financial and Economic Committee may Solicit PPP projects or initiatives and ideas. The solicited proposal shall be carefully studied to assess and ensure the possibility of its implementation under PPP model and that it is attractive to private investors and it’s inline with the priorities of the government. The private sector may submit a proposal to implement, manage or operate a project on the partnership basis, provided that such proposal shall be formally submitted to The Ministry, which shall pass it to the Financial and Economic Committee, attaching thereto the project's preliminary feasibility study.

If the Financial and Economic Committee decides to add the project to joint projects program being adopted and announced by it from time to time, a committee shall be formed for the project and headed by the concerned undersecretary / director general and a representative of the Technical Bureau. The Committee shall also choose financial, legal and technical consulting offices to assist and support the project committee.

To support performance of its function, the Project Committee shall form a team from employees of the Technical Bureau, the concerned Federal Entity, The Ministry, experts and consultants for financial, legal and technical matters, as well as any person competent in some aspects of joint project, and any expert or consultant required due to the project's nature and business interest. The coordination of the team's activities shall be made by an employee of the Technical Bureau.
5.2 Projects submission to the guidelines stated in this manual
Not every project implemented by the federal entities with a private sector partner may be required to comply with the guidelines contained herein or the internationally acceptable procedures / practices of partnership contracts with the private sector. The project shall meet the following conditions in order to be considered as a PPP project:

- The project's value shall exceed 200 million dirhams, except the projects of strategic nature that are classified under the scope of partnership projects performed with the private sector as agreed by the concerned entity and The Ministry represented by the Technical Bureau. If the project's value is less than 200 million dirhams, or the project doesn’t meet PPP criterion, it shall be executed in accordance with the procurement and warehouse management regulations at the federal government and any other applicable federal laws.
- The private sector shall finance wholly or partially a public project of an economic nature.
- The private sector shall implement at least one of the following processes: construction, development, restoration, outfit, maintenance, rehabilitation and operation.

The powers of acceptance, approval and monitoring on joint projects shall be as follows:

A. If the project's value is less than 250 million dirhams, the relationship shall be direct between the concerned entity and The Ministry represented by the Technical Bureau.
B. If the project's value is 250 million dirhams and above, the project shall be presented to the Financial and Economic Committee for initial approval and then to the Cabinet for final approval. The completion reports, performance and operation monitoring shall be presented to the Financial and Economic Committee.

If the project by the Federal Entity proposed meets the above conditions, it shall be obligatorily subject to the guidelines and procedures contained herein. Accordingly, if any Federal Entity initiates to carry out any joint project subject to the application of the PPP contract system without following the procedures contained herein, this project may be canceled by any interested party due to
excess of powers and the person in charge of such entity shall be legally accountable.

5.3 Project Preparation & Proposal

1. The Minister/Chairman will represent the concerned Federal Entity in the proposing joint projects relating to such entity.

2. Proposals, ideas and initiatives shall be submitted under a formal request to The Ministry, which shall after studying such request, submit the same to the Financial and Economic Committee to decide thereon.

3. Upon receipt of the said request, the Technical Bureau shall review it and audit the documents attached thereto, and shall cooperate, coordinate and provide technical support for the applicant to complete the deficiencies, if any, in order to develop a preliminary assessment of the project. It is not necessary at this phase for the Federal Entity to submit a detailed and comprehensive study. However, it is required to cooperate with the Technical Bureau for briefing the project's elements and inputs, completing its documents and preparing a preliminary study for a summarized and focused initial evaluation of the project's feasibility in order to:

A. Analyze needs, project objectives and anticipated results, public service expected to be provided, the project site and availability thereof, timetable for the awarding process, and anticipated completion period (basis and standards of the anticipated period calculation shall be stated), main technical and financial challenges that may hinder the completion, and results of any conducted studies related to the proposed project with the concerned Federal Entity or any other entity.

B. Determine the sector's needs in both of services and/or infrastructure.

C. Ensure the project's conformity with the policies and strategies of the concerned sector.

D. Assess the cost, study the social and environmental impact and include the benefits of the project's green growth and climate change.

E. Determine the technical and operational dimensions of the project's idea through the initial analysis to the following:

- The project's engineering and technical aspects.
- The possibility of managing the project's operational aspects.
F. Determine the financial and economic dimensions of the project's idea through the initial analysis of the following:

- The anticipated revenue and financing costs, calculation of returns on capital and Internal Rate of Return.
- The project's total cost (capital + Operational Costs + maintenance costs) on the basis of standards applicable in the concerned project, including value for money, quality/cost and analysis of comparative cost if the project is implemented by the government.
- Determine the cash flow and potential economic benefits from the project.
- Scope of the private sector's interest in the project.
- Risk matrix (probability of occurrence, impact on the project and mechanisms of management).

4. When the studies and documents are completed, The Ministry shall submit the request to the Financial and Economic Committee for the late to provide its preliminary comments within 60 days.

5. Upon receipt of Finance and Economic Committee comments, the Technical Bureau in coordination with the concerned Federal Entity shall take the necessary corrective actions and complete documents to re-submit the request to the Financial and Economic Committee through M the Ministry.

6. Based on the preliminary studies, documents and inputs formed by the Financial and Economic Committee about the proposed project, a deliberation and discussion shall be conducted as for the project’s viability to be implemented by virtue of a partnership contract, the private sector's interest in such project and whether the same conforms to the government's priorities.

7. Based on the discussion result, the Financial and Economic Committee shall issue a resolution either to reject or approve the project and proceed with the feasibility study.

8. If the project is approved, it shall be added to the joint projects program announced by The Ministry from time to time on the website or through periodic publications issued by The Ministry. These projects include:

- Projects to be added to the joint projects program.
• Projects on which initial approval resolutions were issued by the Financial and Economic Committee.
• Projects approved by the Cabinet.
• Projects for which the procedures to select the private partner had begun.
• Projects on which the PPP contracts were signed.
• Projects began to be implemented and its phase(s) completed.

5.4 Feasibility Study Template
The feasibility study template determines the manner or method to assess the feasibility of the partnership project. The feasibility is fundamental in achieving value for money for the joint projects with the private sector. Therefore, it is essential to study the business status and ensure the same prior to taking any decision to use the partnership approach with the private sector. The feasibility study template focuses on assessment of the value for money and the possibility of implementing the project, subject to:

1- Public sector comparator (PSC).
2- Public sector comparator modified to contain risk.
3- Main reference model for partnership (to be compared with the Public Sector Comparator)
4- Reference model for partnership modified to contain risk.

The assessment of feasibility assists the Technical Bureau to complete four critical tasks as follow:

✓ Establish a measure for the internal service provision costs (Public Sector Comparator).
✓ Determine the extent of considering the partnership option to balance its potential benefits over costs.
✓ The public sector comparator assists the sponsor to evaluate which bid makes better value for money.
✓ The assessment of feasibility assists to find a systematic strategy for risk management to optimally distribute risks before negotiating with the private partner.

The feasibility study shall be prepared and assessed on a project basis. Each project has a different ability to provide value for money.
The process of developing the public sector comparator and reference model for public-private partnership is a huge task. The implementation of this process requires consideration of hiring experts in the event such experts are not available in the Technical Bureau or in the concerned Federal Entity.

**Development of the base public sector comparator model**

In this part of the feasibility study, a base public sector comparator model, without calculating risk, shall be developed.

The public sector comparator shall represent the total cost to implement the project by conventional methods, i.e. by the government, and by using one of the approved methods of procurement. The model shall observe all types of cash inflow or outflow, such as:

- Direct costs.
- Indirect costs.
- Revenues.

All the accounting processes of costs and income shall be supported by documents attached to the public sector comparator to support assumptions and analysis.

**Calculation of direct costs**

**Direct costs** are those costs that can be customized or linked to a particular service. Such costs may be calculated by the following:

A. The recent public sector projects to provide the same service or infrastructure.

B. If there are no projects recently carried out for comparison and measurement, then the best estimates shall be made based on the costs of similar projects in neighboring countries.

Direct costs shall be classified according to the following categories:

A. Capital costs.
B. Maintenance costs.
C. Operational Costs.
Calculation of indirect costs
Indirect costs are the costs of resources from the Federal Entity and have no direct relation to the project. In general, they are expenditure costs, including:

- Time and effort of senior management.
- Accounting.
- Legal services.

Revenue
The partnership projects that provide services may generate revenues that are considered cash flows. The accurate estimation of this flow is necessary when developing the public sector comparator and the reference model for partnership. Since the partnership project extends for years, it is necessary to estimate the revenue growth percentage over the project's life.

Model assumptions
All the assumptions made for the development of public sector comparator model shall be clearly identified. The model shall usually cover several areas such as:

- Inflation percentage. The percentage of inflation on all the anticipated future cash flows shall be predicted.
- Deduction percentage: Means the deduction made on future cash flows based on the present values through application of certain deduction percentage. The federal Entity shall consult with the Ministry to develop a suitable deduction percentage.
- Consumption: It is not put within the public sector comparator models since those models are calculated on cash flows, not on other accounts.
Definition of Base Public Sector Comparator Model

All project costs over the project's entire period shall be anticipated, but these costs occur at different times. Thus, the project's cash flows (inflows and outflows) shall be reduced based on the present value. The net present value of the cash flows shall be calculated based on the above mentioned costs. It is necessary to consult the Technical Bureau or any other financial consulting firms at this phase to develop this model if the Federal Entity does not have such expertise.

An example of base public sector Comparator Model is shown in the table below:

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<tr>
<th>Year</th>
<th>Capital Cost</th>
<th>Maintenance Cost</th>
<th>Operational costs</th>
<th>Indirect costs</th>
<th>Revenue</th>
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<th>Discount factor</th>
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Development of public sector Comparator Model modified to contain risks

This section outlines the public sector Comparator Model modified to contain risks. This model shall be calculated to contain such risks that are often overlooked by traditional methods in the public project implementation. This method is equal to the base public sector Comparator Model in addition to the risks costs. The risks and costs thereof shall be obtained from the risk assessment model.

An example of public sector Comparator Model modified to contain risks is shown in the table below:

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<thead>
<tr>
<th>Year</th>
<th>Capital Costs</th>
<th>Maintenance Costs</th>
<th>Operational Costs</th>
<th>Indirect Costs</th>
<th>Revenues</th>
<th>Modification for risks</th>
<th>Total</th>
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Development of PPP Base Reference Model

Under this section of the feasibility study, the PPP base reference model, without calculating the risks costs, shall be developed. The base reference model represents the output specification cost incurred by the concerned Federal Entity, assuming that the private sector shall implement the project.

By comparing the public sector comparator with reference model for PPP, the concerned Federal Entity is able to evaluate whichever gives the best value for money, whether the service provision by the government? Or the private partner?

The reference model for PPP shall be obtained using the same output specifications, such as those that were used for the base public sector Comparator Model.

Since this model is a theoretical model in which the concerned Federal Entity assumes the private sector's role, it shall be known that it is impossible to get accurate costs by 100%.

The following steps shall be taken to develop the PPP base reference model:

- Identifying the structure and financing sources of the PPP project.
- Developing the basis for payment mechanism.
- Calculating and unifying all costs.
- Developing the Model assumptions.
- Defining the PPP base reference model.
- Describing the results of the PPP base reference model.

Identification of the Partnership Project’s Structure And Financing Sources

In this section, the following points shall be determined:

- The relationship between the concerned Federal Entity and the various parties from private companies and.
- Proposed financing sources, such as:
  - Debt or equity
  - Government contributions
  - Stock returns
✓ Costs and main conditions of debt financing

**Calculation and Unification of all Costs**

The categories of costs covered in this section shall be the same costs in the public sector Comparator Model. The main difference is that the reference model for PPP is expected to take into account the innovation, creative design, construction, and operational competencies expected from the private partner. Such competencies shall be defined herein and used as a basis to calculate the following sub-sections (They shall be the same as those used in the base public sector Comparator Model mentioned above, including direct and indirect costs and revenues)

**Model Assumptions**

The PPP base reference model shall be developed based upon the same assumptions that have been developed for the public sector Comparator Model, stated above, including inflation rate, discount rate and consumption.

**Definition of the PPP base reference model**

The base reference model shall use all the costs previously determined without hedging costs of risks. The model shall be used in the same way used by public sector Comparator Model since all cash flows (inflows and outflows) shall be reduced by using the net present value.

An example of PPP base reference model is shown in the table below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Capital Costs</th>
<th>Maintenance Costs</th>
<th>Operational Costs</th>
<th>Indirect Costs</th>
<th>Revenues</th>
<th>Modification for risks</th>
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Development of the PPP reference model modified to contain risks

The PPP reference model modified to contain risks is equal to the base PPP base reference model in addition to the risk costs (note that column of modification for risk in the table below)

The PPP reference model modified to contain risks shall distinguish between the transferable risks (risks that can be transferred to the private sector because it is more suitable to manage these risks) and residual risks (risks that the government proposes to manage by its own)

An example of the PPP reference model modified to contain risks is shown in the table below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Capital Costs</th>
<th>Maintenance Costs</th>
<th>Operational Costs</th>
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Sensitivity Analysis
This section determines the extent of flexibility of the base public sector Comparator Model and the PPP base reference model towards changes in the assumptions on which the model is developed.

The concerned Federal Entity shall test the main variables sensitivity in order to determine its impact on the value for money and the possibility of implementing the project. This matter aims at checking whether the value for money will continue to be present if any of the main variables changed (for example, if the inflation rate or the Operational Costs is higher than assumed)
The main variables may include the following:

- Inflation rate.
- Discount rate.
- Demand for service.
- Operational Costs.
- Revenues.
- Any other costs or assumptions have been developed.

The best example for the sensitivity analysis of PPP reference model is when the upper and lower values of discount rates are checked. If both values of discount rates support or reject the project's value for money, the presumed or estimated values may be considered reflective of the changes. If not, the project shall be further examined.

**Demonstration of the ability to carry out the Project**

This section is intended to measure the ability to carry out a PPP project. In order to do so, the following steps shall be taken:

- Determine the budget allocated to the project.
- Compare the PPP reference model modified to contain risks with the budget allocated for the project.

**Determination of the budget allocated to the project**

The budget usually set by the Federal Entity for such projects shall be estimated (or may be known to the entity). If the budget is not known in advance, it may be obtained from the costs of base public sector Comparator Model since the base public sector Comparator Model is used in the traditional government requests.

**Comparison of the PPP reference model modified to contain risks with the budget allocated for the project**

This section shall show the ability to carry out the project by comparing the budget with the PPP reference model modified to contain risks. Based on the comparison results, two possible cases shall be found as follows:
First: If the costs of the PPP model or the net present value are less than the budget, there shall be ability to carry out the project.

Second: If it is not so, and there is no ability to carry out the project, there are two options:

- Waiving the project, or
- Modifying the output specifications to place the project within the limits of the ability to carry it.

Initial Examination of the Value for Money

This section is intended to provide an initial examination of value for money. This actual examination is defined as the RFP phase.

The initial examination of the value for money shall be conducted by comparing the public sector Comparator Model modified to contain risks with the PPP reference model modified to contain risks. The net present value resulting from both models shall be compared. The model that comes with less value shall be considered the one that gives greater value for money.

If both net present values are close to each other, other specific factors such as quality and performance shall be studied to select the best model for the project.

In general, the tests of ability to bear the financial burden and value for money shall be made at four critical phases during the project development and implementation, namely:

1. At the time of preparing the project's initial feasibility study when seeking to obtain the approvals on the project,
2. Before the implementation directly, during revising previous estimates to reflect the output specifications and transfer the proposed risks and costs in the date of signing the contract,
3. Upon receipt of bids to ensure that the preferred bid passes the both tests.
4. Before awarding the contract to ensure that there is no adverse effect on the value for money or the ability to bear the financial burden due to the
amendments made during the negotiation and discussion phase of or the change in public financing.

5.5 Formation of the Project Committee and its functions

In cooperation with the team, the Project Committee shall prepare a preliminary study on the joint project, which deals with the technical, economic, legal and financial aspects, the extent of investor interest and the possibility of attracting necessary financing. The Project Committee shall submit a report including its recommendation in this regard to the Financial and Economic Committee, through The Ministry.

The Project Committee shall be formed under a resolution issued by the competent minister/chairman to assume the preparation of preliminary studies and then manage the project awarding. The committee shall be headed by the undersecretary/ general director of the entity concerned with the project and shall include a representative of the Technical Bureau as well as members from inside and outside the concerned entity, if required.

The Project Committee shall be the executive arm of the Financial and Economic Committee and aims at promoting the cooperation between the concerned Federal Entity and The Ministry, a matter that assists in achieving excellent results at the level of the joint project awarding. Being an effective element in the success of joint projects, Project Committee is entrusted significant powers to do this central and leading role, starting from studying all the details of the project and take the procedures to select the private partner, and ending on awarding the contract.

It is important for The Ministry to participate in this committee in order to study the financial burden and the extent of the project's future effects on the UAE budget and ensure the availability of adequate financing throughout the project implementation period. The Project Committee shall be assisted by legal, financial and technical consulting firms, where required.

To assist it in performing its functions, the Project Committee shall form a team consists of specialists form the Technical Bureau, legal, financial and technical consultancy experts, the authority supervising the sector regulation, if any, and
any other person or entity that some aspects of the joint project fall within his powers.

5.6 Project Consultant

The Project Committee may seek the assistance of experts and consultants specialized in various aspects and dimensions of partnership law if the Financial and Economic Committee agreed this matter.

A. Importance of having consultants for the project

The PPP project awarding completion depends mainly on the good organization and preparation by the Federal Entity and its ability to take advantage of expertise and competences in the Technical Bureau and to hire specialized consultancy services.

The consultant selection has a significant impact on the perception of potential investors for the presented project, whether in terms of the extent of their interest or willingness to provide the expected price. The consulting firms’ importance is attributed to fact that the joint projects are complicated projects requiring skills and expertise specific to the project nature and such expertise may not be available at the federal entity or the Technical Bureau. The specialized consultants provide skills and expertise required for the success of awarding process. The close cooperation between the consultants on one hand and the Project Committee and the team on the other hand plays a significant role in developing the skills of the committee members and work team.

Consultant hiring reduces falling into costly mistakes that can be avoided, as they are aware of the best local and international practices and implemented similar joint projects.

Participation of the private sector and the extent of its interest in investment depend on the confidence of investors in the State in general and in the contracting Federal Entity in particular. The consulting firms have an impact on the private sector's decision for investment, since hiring of well-known and reputable consulting firms supports the credibility of awarding process and enhances the investors’ confidence.
The private sector judges the State based on previous experiences. If the State proves its dependence on transparent and fair selection procedures in the early phases of the project, i.e. when selecting consulting firms, this supports and enhances the investor's confidence in the awarding process.

Contracting with well-known and reputable consultants supports the credibility of the awarding process, as the consultants having distinctive reputation are not ready to involve their names in projects that cannot be implemented; a matter that satisfies the investors as for the project's integrity due to the independence of such consulting firms.

In light of the foregoing, the benefits resulting from proper planning and preparation of the awarding process and the success of the joint project in the long term may exceed the consultants' fees incurred by the State for once.

B. Timing of the project consultant appointment

This appointment shall be made if it is decided to add the proposed project to the joint projects program and after the formation of the project committee. It is worth noting that it is better that the transaction Advisor shall be appointed before the other consultants; due to its role in determining the required skills of the other consultants and drafting RFPs directed to consultants, based on his experience in implementing similar projects.

C. Project consultancy team

The joint project consists of several diverse elements and requires a wide range of disciplines at the preparation phase and during the awarding process. Thus, each project requires a different mix of consultants. However, there are some fixed skills within the projects, which are provided by financial, legal and technical consulting firms.

The project consultancy team consists of the transaction Advisor, known as the financial consultant, and legal and technical consultants, all of them are cooperating within a single frame under the supervision of the project committee.
1. Project's transaction Advisor (transaction Advisor)

The transaction Advisor plays a pivotal role in awarding joint projects and managing to sign the PPP contract. It serves as a central point of accountability for the proper and timely completion of work by consultants. Furthermore, it plays the role of mediator between the Project Committee and private investors interested in the project.

The existence of an active consultant experienced in the area of the proposed project has many positive implications and effects, including:

- Benefitting from its local and international experience in all matters associated with the various phases of awarding joint projects in the concerned sector, identifying performance indicators and monitoring completion.
- Protecting the federal government from making costly mistakes that can be avoided.
- Obtaining the services of the best local and international practices in this area.
- Strengthening the trust of local and international investors to participate in the proposed project.
- Transferring experience and knowledge to the staff of Technical Bureau and the federal government.
- Serving as a central and pivotal point of accountability and be liable for completing the project professionally and timely.

One of the preliminary duties that may be assigned to the transaction Advisor is to study the possible forms of PPP to implement the joint project and to recommend the best form in the light of imposed restrictions and objectives envisaged by the Federal Entity from the project. The transaction Advisor may assist in designing the awarding process, identifying the required tasks and linking the same with a schedule. He may also assist the Project Committee in the selecting the consulting firms, recommend the firms having the necessary expertise, and identify things to be studied and thus develop the scope of work and assist in the evaluation of the proposals submitted by the consulting firms.
The core duties of the transaction Advisor are as follows:

- Attracting the attention of the private sector to the joint project and designing the same in such manner that enhances its eligibility for financing and successful implement. Such duties require skills relating to structure of financing transactions, preparation of financial models, studying and assessing risks, and conducting negotiations. The transaction Advisor shall be aware of the commercial logic and analysis of markets and ways of attracting private financing.
- Studying the impact of any changes in the project on the private sector's trust and interest, and also playing a leading role in the selection process of the private partner, negotiation and financial closure.

Contracting with the project's transaction Advisor may be divided into two separate phases, namely:

**First stage**: This stage is intended to complete the feasibility study in accordance with the PPP contracts at such level that enables the Financial and Economic Committee and the Cabinet of making the right decision to move forward with the joint project or not. If the project implementation is approved, the project's transaction Advisor shall proceed with the second phase.

**Second stage**: This stage is intended to prepare for the selecting the private partner and taking the relevant procedures, including preparing all the necessary documents and instruments. This division of stages allows the government to terminate the contract with the transaction Advisor upon completion the feasibility study if it is decided not to proceed with the partnership project.

2. **Legal consultant**

The role of the legal consultant begins with studying the compliance of the joint project details with the laws and regulations applicable in the State and therefore the viability of the project to be legally implemented, and provision of appropriate solutions that shall overcome any obstacles. Furthermore, the
legal consultant shall assist in drafting documents (Request For Expressions of Interest (REOI), Pre-qualification Document) and revising the same in terms of legal perspective. The main role of the legal consultant is to draft PPP contracts and subsequent contracts and ensure that such these contracts reflect the final agreement resulting from negotiations with the private partner.

Legal consultant plays an important role in finalising the contract by ensuring that that contract satisfies the precedent conditions to be enforceable. This matter requires enjoying an experience in the local legal framework and international best practices followed in the PPP contract drafting and negotiation.

3- Technical Consultant

The primary role of technical consultant is to identify the outputs envisaged from the joint project and develop their technical specifications and the method of linking them with entitlements of the private partner. It also evaluates the potential technical solutions in the joint project design phase, proposes alternatives, and bears the responsibility for studying and analysing the technical proposals submitted by the competitors.

Technical consulting team consists of engineers with technical experience in the material aspects of the project in question. This matter requires specialisation in the concerned sector, ability to identify operational and investment requirements and familiarity with the technical aspects.

It is important that the technical consultant shall be highly experienced in the proposed joint project and in the concerned sector. Preferably, this experience shall be of a wide geographical reach because the technical studies are based on specific characteristics of the project in question and the lessons learned from similar projects that the Technical Consultant contributed in its implementation.

The technical consultant tasks require certain skills, including implementing engineering designs, estimating and calculating costs and quantities over the project life cycle, planning and predict demand activity, assessing assets, developing performance criterion and identifying investment requirements.
4- Other Consultants

The consultancy team formation shall be depended on the nature of the joint project and human resources in the Technical Bureau and the concerned Federal Entity. In addition to the above-mentioned consultants, the nature of the proposed project may require hiring other consultants specialised in areas to be determined as appropriate. Examples of these consultants are as follows:

1- Environmental Consultant

Some environmental tasks are often entrusted to the technical consultant. However, in some joint projects, especially infrastructure projects, which its implementation may result in serious environmental consequences, it is necessary to prepare a detailed study of the environmental impact on the state. This matter requires hiring a consultant specialised in the environmental matters. Despite the winning bidder could take it upon himself studying the environmental impact due to the requirements of some funders, the need for environmental consultant remains imperative since it sets the minimum environmental standards to be observed by partners when designing technical solutions, which include, but are not limited to, green building and sustainability. The environmental consultant evaluates the extent to which these solutions satisfy the objective environmental conditions.

2- Public Relations Consultant "Marketing"

Hiring public relations consultant aims at disseminating information about the project in order to involve all stakeholders and ensuring their support of the joint project on one hand and informing the private sector of the proposed project on the other. Thus, the work of a public relations consultant targets two groups of the public, namely public opinion and private sector.

As for the public opinion: Public relations consultant may, in order to gain its support for the project, resort to organize public consultancy meetings with stakeholders such as civil society organizations to view the project details and goals and to listen to their opinions and concerns with respect to the project impacts on them. It may also resorts to the media, where it can organize dialogic sessions with the concerned Federal Entity and Technical Bureau, or
publish newspaper articles or present short documentary films describing the project parameters and targets thereof.

As for the private sector: The public relations consultant tasks aim at promoting the joint project and attracting the attention of potential investors. These tasks may include roadshows addressed to the investment community, and surveys of investors' opinions in order to measure the level of interest in the joint project.

5.7 Methodology of Awarding Consultancy Services

Approving the proper methodology of the project consultant appointment supports the possibility of hiring the consultant best suited for the project and enhances the project success and achievement of its goals. The Project Committee shall be responsible for approving the consultant appointment and it may assign to the Federal Entity any tasks it deems appropriate to be carried by the entity under its supervision.

There are three ways to appoint the project consultant, namely:

A- Open international competitive bid

It is defined as an open invitation to more than one consultant (which gives it the competitive nature) from more than one country (which gives it an international nature) to submit proposals for consultancy services in a specific project. It is the best way for appointing the consultants due to its transparency and the creativity resulting from submitting creative action plans and innovative ideas that may not be taken into account. It also promotes consultants’ trust in the government, which may be non-existent or questionable if the committee/entity is used to award the consultancy services by mutual agreement. On the other hand, it may appear that the awarding method through open international competitive bidding is expensive and requires a longer time and larger team to organise thereof, but this cost and effort may be negligible when comparing thereof with the cost resulting from the selecting an inappropriate consultant and its implications for the joint project failure.
B- Tendering

It is one of the competitive bidding types and it is not only characterized by inviting all consultants interested or qualified to do the work, but also it is targeted to a specified number of consultants who may be local or foreign.

The method of Tendering is less costly than the open international competitive bidding due to the savings resulting from not publishing the invitation in the local and international newspapers, where the registered or well-known consultants are directly notified.

This method should be used in awarding the consultancy services if there is a limited number of the consultants specialised in providing the envisaged services and have a good track record.

C- Direct Agreement – Mutual agreement

It is an invitation directed to one entity to submit a consultancy services bid for a specific project and the contract is signed after negation.

In general, the time and cost factors are the most important incentives to resort to this method. It allows hiring a consultant quickly and at a lower cost than the cost of organizing the awarding process through an open international competitive bidding or Tendering. However, this method misses the opportunity to compare the technical and financial bids with alternative bids. It may cause the government to be subjected to strong criticism such as lack of transparency, may encourage corruption and bribery and may constitute a violation of financial regulations relating to contract deals.

Accordingly, it is preferred to depend on the open international competitive bidding or Tendering when appointing the project consultant. The awarding process shall be linked with a real schedule, and the Time limits specified therein shall be observed. In general, the procurement-regulating unit at the concerned Federal Entity plays an important role in tendering and application of the regulation enforceable in this regard.
5.8 Consultant Bid Assessment Mechanism

The bids assessment mechanism primarily depends on the level of significance given to cost by the State. The bids are assessed by one of the following methods:

a. Pure Technical Assessment Method

The bid assessment depends on the technical competency according to a points/weight system agreed upon in advance and followed by a contract value negotiation. In this case the method is known as “Quality Based Selection”. If there is a fixed budget for the consultancy services, the method is called “Fixed Budget Selection”. The committee/ concerned Federal Entity shall have the right to decide whether to disclose the financial cap allocated for these services or not.

b. Joint Technical and Financial Assessment Method

In this method, the technical and financial elements shall be taken into consideration based on specific weights. This method has various forms, including what is called “Least Cost Selection with Technical Hurdler”, in which the final assessment depends on the classification of the financial bids submitted by the consultants who obtained the minimum technical score, e.g. 70 points out of 100 points.

The other form of the technical and financial assessment is what is called “Quality and Cost Based Selection”. In this form, a set of points are calculated as the average of the technical and financial points based on the weights as the average points of each of them: for example, a weight of 80% may be allocated to the technical points against 20% for the financial points, or 90% for technical points against 10% for the financial points depending on the financial element.

Those two forms may be integrated by calculating the total points based on their technical and financial weights for the bids that get the minimum technical score.
c. Pure Financial Assessment Method

In this method, the bidder winning the consultancy contract is the one that proposes the least price. Although the assessment is fast and easy in this method, the bids submitted shall not include the proposed working team or the resources to be provided by the consultant. This method does not encourage the experienced and highly skilled consultants to participate.

The bids assessment method shall be selected based on the types of consultancy services required according to the project nature and any financial limits imposed on the joint project study budget. Thus, it is difficult to recommend a standard assessment method for all projects, but it is preferred to take the technical aspect of the consultancy bids into consideration, including the experiences and skills of the work team. For that reason, the joint technical and financial assessment method is used in awarding contracts through an open international competitive bidding or by Tendering. The technical aspect of the consultancy bids is very significant due to the difficulties that the contracting Federal Entity may face in estimating and imposing penalties on the consultant if it fails to carry out its duties according to the required specifications and conditions. The contract termination and contraction with another consultant shall result in incurring additional administrative costs and delays the joint project awarding process.

5.9 Project Consultant Appointment Procedures

The procedures detailed below shall be applied to appoint the transaction Advisor, the legal and technical consultants and any other consultants. It is not necessary to make all these procedures at the same time. After that, the committee/Federal Entity shall take the decision regarding the contract form, whether to contract with an individual consultant or with a alliance of consultants includes the transaction Advisor, legal consultant, technical consultant and/or another consultant.

As set out above, it is preferred to contract with the transaction Advisor before proceeding with appointing the remaining consultants due to the important role it plays in this process. The appointment of the transaction Advisor shall
commence when the project committee decides awarding method to be approved.

Then, the Project Committee shall draft the terms of reference document that details the expected objectives of the joint project and its conformity with the government program. The terms of reference shall be detailed and clear in a manner promoting the quality of the consultants’ bids without preventing or limiting the consultant’s ability to provide new and innovative ideas.

A- Terms of Reference Document

The terms of reference document content varies depending on the nature of joint project. In general, the document shall include the following main parts:

- **Project Background**
  
The terms of reference shall include an overview on the project background, including the political environment, economic position, concerned sector status and related indicators, sector policy and needs, project legal and regulatory framework, project background and objectives, any initial studies carried out to date and any non-confidential information listed in the project proposal form.

- **Work Scope and Plan**
  
  This article includes the contract expected period and a description of the consultant duty. It also includes a schedule explaining the significant events relating to reporting and decision-making.

- **Skills and Experiences**
  
  This clause explains the special skills and experiences required from the consultancy companies and work team members.

- **Consultancy Services Awarding Method**
  
  This clause identifies the method followed in awarding the required consultancy services, whether through an open international competitive bidding or Tendering. The Financial and Economic Committee may take decision whether to announce the list of the consultancy offices invited for
bidding or not. It also may coordinate with the procurement-regulating unit to assist it in this process.

- **Payments Regulation and Schedule**

  **The consultant fees may be structured as follows:**

  1. On the basis of a lump sum fees in consideration for the completed works and the provided reports. These fees shall be due, for example, on the completion the project study, bidding requirements document or the contract draft. Another payment shall be paid after approving the outputs agreed upon and accepting it in its final form.

  2. On the basis of daily fees, where the wage is hourly or daily fixed.

    It is better to depend on the lump sum fees method in which the fees shall be due on work completion and accepting them in their final form, due to the incentive this method gives to the consultant in order to achieve the objectives in each main phase of the joint project awarding process and on the successful process completion.

    The payment regulation may set out what is called “Success Fees”, which are paid to the consultant, especially the transaction Advisor on the process financial completion and signing the PPP contract. The success fees shall usually be a percent of the PPP contract value to be paid together with or instead of the lump sum fees for the completed works.

- **Professional Fees and Petty Expenses payment Mechanism (e.g. travel and materials expenses)**

  The professional fees shall be according to the payments specified in the contract and became due when the reports and works are completed and accepted by the committee/Federal Entity. These fees shall be paid under an invoice provided by the consultant, explaining the due amount.

  The contract often includes an advance payment called advance fees. The purpose of this payment is to enable the consultant to form the work team and it shall became due once the contract is signed by both parties. In this case, the
consultant shall provide an unconditional bank guarantee in the name of the Federal Entity, which is equal to the advance payment value.

The petty expenses are those relating to the consultant work team, printing, communications, travel, accommodation, etc. There are two methods of for paying such expenses:

1. Reimbursement Method: In this method, the expenses are paid for compensating actual expenses based on the supported invoices provided by the consultant. The total value of all submitted invoices shall be within a cap to be agreed upon with the consultant and included in the contract. It is preferred to identify and explain this cap in the terms of reference, or to request the consultant may be required to identify the maximum value of the petty expenses in its bid. If they included in the bid, they shall not constitute a part of the assessment criteria without being included in the bids assessment standards. In both cases, the consultant shall get a prior written consent before incurring such expenses.

2. Including them in the professional fees. In this case, the professional fees agreed upon in the contract shall include all petty expenses expected by the consultant throughout the work phases without detailing them. This method is the best one.

**Interest Conflict**

The consultant shall not have any personal interest in the project. The consultant, its subsidiaries or any work team member shall not be entitled to provide advice to any potential private partner nor to execute any services, directly or indirectly, to any Federal Entity as these services may constitute an interest conflict.

**Bidding Rules**

This article shall identify and explain all rules and procedures to be followed in the bidding process in terms of the deadlines, place of submission, any details relating to the review sessions or the Contact and Information Canter, if any, and the way to inquiry about any subject. This article also includes the submission requirements, such as the requirements of providing financial bid and/or
technical bid depending on the assessment method to be followed and the approved models of the technical and financial bids.

- The technical bid gives consultants the chance to prove that they have the skills and experiences required to perform the required duties. It also allows them to suggest the amendments they deem appropriate to the proposed terms of reference to be in conformity with the project and the plan. The technical bid shall include information on the consultant office, which states the related experience, the proposed work team members, their skills and experiences and the role of each of them in terms of effort and time (Man-day). The proposed work team shall include local persons because of their importance in understanding ways of dealing with the local authorities.

- The financial bid shall include details of professional fees and, sometimes, the details of the petty expenses and the cap of the success fees. The contract total price shall be clear and identifies whether it includes the applicable taxes or not.

**Bids Assessment Method and Standards**
This article identifies the bid assessment method and the significance/weight given to the technical aspect of the bids. It also identifies the weight distribution details and approved mechanisms for technical and financial aspects. In addition, it provides the points model followed to calculate the technical pointes.

**Contract Draft**
The contract draft shall be attached to the terms of reference to inform the consultant of the contractual clauses and to allow them to submit any comments in order to save time in negotiation.

**a. Invitation/ Announcement Writing**
Having completed drafting the terms of reference and obtaining the Financial and Economic Committee approval, the project committee, assisted by the work team, shall prepare the invitation letter in case of approving the method of Tendering or the direct agreement, or prepare the announcement in case of approving the open international competitive bidding method.
This document shall include the project outlines, the consultancy duties the Federal Entity seeks to secure, and the periods for expressing interest, obtaining the terms of reference document and submitting the bids. This document shall also identify how to contact with the Technical Bureau for any other inquiries.

The invitation letter shall be sent in the same date to all consultancy offices decided to be invited for tendering. If the open international competitive bidding method is approved, the announcement shall be published in local and international newspapers and the Ministry and the competent Federal Entity websites.

b. Inquiries
The Project Committee shall prepare a list includes the names and addresses of consultancy offices who expressed their interest to participate in the bidding and requested to review the terms of reference document. It may decide whether to disclose that list or not. The communication with the Project Committee shall be in writing, and the committee shall reply to all received consultations and inquiries in the same way. The Project Committee shall circulate any issued clarifications or information to all participating consultancy offices in order to keep all parties informed with all awarding procedures without prejudice to the right of any participant.

The deadline for receiving inquiries and replying there to shall be at (XX) before the bids submission date set out in “Bidding Rules” clause set out in the terms of reference.

The Project Committee may hold a review session if it received any essential inquiries requires doing so. The representatives of the participating consultancy offices shall attend this session. In this session, the Project Committee shall highlight the main characteristics of the terms of reference, identify the project vision and objective, and state the challenges that may face the execution process. The review session shall provide to the project committee members, who will assess the bids, the chance to meet the participants, introduce them to each other and promote transparency and competition among participants.
c. Receiving Consultancy bids

At the bids receiving day in the presence of the majority of the work team members, the work team shall be responsible for receiving, recording, and keeping the consultancy bids if received by hand. In the event of electrical receipt, the technical bids shall be opened first in the presence of the team members, and after assessing the technical bids, the financial bids shall be opened.

When receiving bids, the work team shall ensure that the bids are submitted as set out in terms of reference document and that they are completed according to the followed awarding mechanism in terms of the number of copies and the supporting documents. It shall also ensure that the financial bid is separated from the technical bid if the joint technical and financial common assessment method is approved.

The work team shall not open the envelopes containing the financial bids and shall keep it in a safe place until the Project Committee requests for receiving the same.

d. Consultancy Bids Assessment

Transparency in the bids assessment is the cornerstone to successfully complete the contration. To ensure that transparency, the bids, especially the financial bids, shall be opened in a public session in the presence of representatives from the applicant consultancy offices.

In order to enhance transparency, the Project Committee shall strictly comply with the assessment rules set out in the terms of reference, especially in respect of application of the financial and technical elements weights, and the points model followed in points calculation, in compliance with the terms of reference document.

The Project Committee shall identify the way of putting technical points, whether by consultation between the committee members and then unanimously approving the points, or each committee member shall put the points it deems appropriate, then an average is approved, or by following any other agreed way.
After finishing assessment, the Project Committee shall identify the best consultant whose bid has obtained the best points, and consequently it shall be the bid that meets the competence standards and the required resources.

e. Committee Approval And Contract Negotiation And Signing

After identifying the best consultant, the Project Committee shall submit the assessment results, the bidders ranking and its recommendations regarding the best consultant to the Financial and Economic Committee (through the Ministry) for approving thereof and to commence with negotiation within minimum limits due to the negotiation force of that preferred consultant has. This negotiation may relate to some notes on the contract clauses reviewed by consultants as part of the terms of reference document or may focus on the reports to be prepared by the consultant or on the fees according to the approved awarding method.

The Federal Entity shall not incur any liabilities towards the preferred consultant or any other bidder invited for negotiation, unless the contract is signed.

If the negotiations fail to reach an acceptable contract, the Project Committee shall end the same and invite the next consultant for negotiation. The best consultant shall be notified in writing with the reasons behind the negotiations termination upon starting the negotiations with the second consultant. The Project Committee may not reopen the previous negotiations with the first consultant.

Upon successful completion of the negotiations, the contract shall be duly signed between the Federal Entity and the best consultant or the second consultant in case of failure to contract with the winning consultant. The Ministry shall notify other non-winning bidders.
Chapter Six

Project Life Cycle – Phase II

Project Study and Design
6-Phase 2 – Project Study and Design Phase

Project Life Cycle

Phase 2 – Project Study and Design

Start

Prepare the preliminary studies covering the technical and economic aspects of the project

Annoncing a public invitation for the investors to participate for winning the project

Federal entity/Project Company

Submitting the project study and a report including the suitable recommendation

The Ministry/technical Office

Making the necessary amendments

Financial and Economic Committee

Reviewing the studies and recommendations and raising the same to the Cabinet for final approval to implement the project

Cabinet

Are there any observations

Revising the studies and expressing the opinion

Final approval

Yes

No

Reject the Project

Yes

No

Raising the project as well as the observations and recommendations to the Cabinet for final approval

Final approval

Reject the Project

Yes

No

Reviewing the studies and expressing the opinion
6.1 Preface

This chapter provides the instructions and guidelines relating to the project study and design phase in accordance with the international best practices. Like any other project, investment decision taking shall be supported by an in-depth and thorough study of the project.

As previously mentioned, the Project Committee shall, in cooperation with the work team and the concerned Federal Entity, prepare an initial study of the joint project. This study shall cover the technical, economic, legal and financing aspects, including the investors’ interest and the ability to attract the necessary financing. The Project Committee shall submit to the Financial and Economic Committee through the Ministry a report stating its recommendation regarding the project.

6.2 Project Study Objectives

The main purpose of the project study is to consider all associated factors, to:

- Identify whether the joint project will meet the required need, describing in details the project targeted service and its nature.
- Study the project implementation viability in terms of technical, legal, environmental, social and financial aspects based on the international experiences. As for the technical aspect, the required outcomes, operation criteria, used technology and maintenance are analysed and identified in addition to studying the site. As for the legal aspect, the project implementation viability is evaluated through analysing its legislative, regulatory and contractual framework. The project environmental and social impacts are main factors in relation the project implementation viability. The project environmental impacts and social consequences on the relevant persons and communities shall be identified in accordance with the legal provisions in force in this respect. The most important and main part on which the joint project study focuses is the project implementation viability in financial terms. This part includes several pivots relating to the investors’ interest, possibility of obtaining financing from banks and State ability to meet the financial liabilities associated with the project. The financial study shall include an estimation of the expected revenues and
costs, including the capital costs, operational costs and maintenance costs throughout the entire project period. The financial model shall be developed after estimating the revenues and costs. This model aims at calculating the current net value of cash flows and the project internal return rate throughout the project period. Thus, the model measures the joint project safety and financial sustainability.

- Develop the best design for the project by comparing various patterns available for the private sector partnership and identify the most appropriate project structure after carrying out a comprehensive analysis of the available options and alternatives in all technical, legal, environmental, social and financial aspects. Since the risk sharing is a fundamental element of the joint projects, this study identifies the best distribution of the financial, technical and operational risks between the partners based on an accurate analysis and evaluation of such risks, their mitigation means and distribution method.

- Highlight the strategic and operational importance and benefits expected from the joint project.

- Explain the extent of the project consistency with the policy developed for the sector by the government.

- This study constitutes the cornerstone in the project preparation process. Compliance with the principles and guidelines set out in this manual when preparing the study will enable the Cabinet and the Financial and Economic Committee to get the required and sufficient information for taking the appropriate decision; whether to proceed with the project implementation or not.

It shall be noted that the project study details, dimensions and structure differ from one project to another. The study sections set out in this manual are general and for guiding purposes only, and may not apply to some projects that may require studying other aspects.

6.3 Project Study Features

This study constitutes the basis for a very important investment decision taken by the State. Therefore, it shall be characterized by the following:

- Adequate detail in all parts of the study.
• Necessary accuracy in collecting and analysing information.
• Full documentation of data and assumptions
• Approving the actual assumptions according to the analyses.
• Inclusiveness in addressing all project aspects, including the strengths, weaknesses, opportunities and obstacles that may affect the success of the project.

6.4 Project Study and Design Sections “The Study”

The project study and design shall include at least the following sections:

a. Detailed Study of Need

The detailed study of need aims at identifying the gabs in public services, and analysing their type and volume in details, considering the suitability of the proposed project to meet that need, and identifying the project’s best parameters to meet that need.

The gabs mean any failure in provision of public service in terms of:
• The provided service Quality;
• The provided service Quantity; and/ or
• The service non-existence or non-provision of at all.

Naturally, the Federal Entity concerned with the project shall provide a detailed explanation of the now existing gaps and deficiencies when proposing the joint project. This explanation shall constitute part of the file submitted to the Financial and Economic Committee, stating “high level” initial details about them. To ensure verifying the data set out in the Federal Entity file, the Technical Bureau and the project consultants, who assist the Project Committee and the work team in preparing this study, shall carry out a comprehensive analysis of the need as follows:

First: Project Suitability to State Strategic Objectives

The Federal Entity vision and the desired services shall be studied from the State perspective and polices for the sector development as well as the Federal Entity strategic objectives and priorities. The proposed project shall be analyzed in terms of its conformity with these priorities and its contribution in
executing the sector policy by studying and analysing the following main aspects:

- The project scale and its impact on State budget.
- The expected outcomes of the service provision.
- The expected schedule for service provision commencement.
- Level of demand for the service and citizens need for it.

**Second: Readiness for launching and keeping up with the project**

The work team ability to proceed with the project shall be ensured if the project is approved by the Financial and Economic Committee and the Cabinet, and its implementation shall be supervised throughout its period. Thus, the readiness shall be evaluated at two levels.

**The first level** relates to the competency of the team launching the project up to the contract-awarding phase. It shall be ensured that contracting with all required consultants is completed and that the Project Committee members and the work team are aware of the sector conditions and ready to allocate the required time to the project. **The second level of readiness** shall be evaluated later as it relates to the post-awarding phase, where the Federal Entity readiness to allocate a work team for following up the project implementation shall be ensured. The readiness evaluation scope shall extend to cover the general financial aspects. Coordination shall be carried out with the Ministry to make sure that state budget can cover the financial liabilities resulted from the project.

**Third: Project Parameters suitable for Bridging the Existing Gaps**

After ensuring the project alignment with the strategic objectives of the Federal Entity and readiness to launch the project, follow up its implementation and meet the financial liabilities, the proposed project outputs, the minimum required specifications and the related performance evaluation indicators should be identified. An initial list of the public and private properties, where appropriate, which the project needs and the partnership pattern expected to be approved shall be developed.
b. **Technical and Practical Implementation Viability Study**

This study includes analysing the technical aspects of the joint project in terms of obtaining the required outputs as reached in the above-mentioned study of need, and identifying the criteria of operation, used technology and maintenance. The study also includes reviewing the outlines of the project’s potential engineering designs and their implementation viability by comparing them with the approved constructional standards and measures in the state and their conformity with the relevant laws.

On the other hand, the site shall be technically studied by carrying out a terrain analysis through the topographic studies and an analysis of the soil nature and its underground components by studying the technical geography (or what so called geotechnical study).

c. **Legal Study**

This study is based on an analysis of the legislative, organizational and contractual framework for the joint project. The purpose of this study is to consider the potential legal structures of the project based on the international best practices of the similar projects, and to recommend the best legal framework in terms of conformity with the applicable laws and regulations in the state. This study is the essence of the legal consultant duties, who shall carry out a detailed review of all related legislations and their effect on the project, any regulatory requirements relating to the project, and the required permits and the method of obtaining it and their impact on the project schedule. The study shall cover the taxes (if applicable) that will be imposed on the project company. If the legal consultant found any conflict between the applicable laws and the international practices in a manner that may affect the investors’ attractiveness, it shall suggest the legislative amendments, which would put the project on a par with similar global projects.

When preparing the legal study, attention shall be given to the main articles and provisions to be included in the PPP contract, so that the legal consultant shall put the outlines of the PPP contract. The legal consultant shall scrutinize the phases of the private partner selection, the consequent establishment of the project company and the possibility of the state involvement. It shall prepare
any decrees relating to this phase such as the acquisition decrees and fee collection decrees in the name of the Federal Entity. This matter aims at identifying and anticipating any obstacles that may hinder or delay the selection procedures and work commencement in order to take them into consideration when evaluating the project implementation viability.

If the project relates to existing facilities and the Federal Entity seeks to enter into partnership with the private sector for developing, restoring, preparing, maintaining, rehabilitating or operating the same, the study then shall include any existing contracts related to the project, whether there they are employment, supply, lease or maintenance contracts, and identify whether those contracts will be assigned or transferred to the project company/private partner or will be terminated.

The joint project site may come first in the investors’ considerations. After studying and evaluating the site technically within the study of the technical and practical implementation viability, the legal study shall highlight the ownership of the land on which the project will be established. This phase includes carrying out comprehensive investigations regarding the site ownership and any obstacles that may hinder its availability, and accurately identifying the expected schedule to acquire it. The Ministry/concerned Federal Entity shall coordinate with the concerned authorities in the local governments to make the arrangements required to acquire the land on which the project will be established according to the applicable procedures in this regard.

In some cases, the site provided by the Federal Entity to the project company shall not be limited to the land only, it may include also other assets such as existing facilities, fixtures and equipment. Accordingly, this point shall be taken into consideration when preparing the study.

d. Environmental Impact Assessment Study
Pursuant to Article No. 4 of the Federal Law No. 24 of 1999 on environment protection and development, as amended by Federal Law No. 20 of 2006 regarding “environmental impact assessment”, it states that “without prejudice to the provisions of the above article, the agency shall, in coordination with the
competent authorities and other relevant entities, conduct the environmental impact assessment of the project and the establishment to be licensed. No project or establishment shall start the activity before obtaining the license aforementioned in the previous article including environmental impact assessment.”

When studying the environmental impact assessment of the joint project, it is necessary to ensure that the initial environmental examination and the environmental impact assessment studies are carried out for projects that may threaten the environment due to its scale, nature, impact or activities. The study shall include the sustainability standards and factors, the climate change and reduction of carbon emissions to support the green development projects.

The environmental impact assessment study is defined as a study aiming at identifying, estimating and evaluating the impacts of the proposed project on the environments, and identifying the measures of mitigating the negative impacts and increasing the positive impacts on the environment and natural resources. The study shall be carried out before deciding to approve or reject the project.

The environmental impact assessment study shall include many basic information, including, but not limited to, policies framework, legal and administrative frameworks for the project, description of the project surrounding environment, description of the project potential environmental impacts and analysis of the project alternatives, if any. The most important pivot in this study may be the one relating to the “Environmental Management Plan”. Environmental Management Plan is defined as “a set of mitigation measures, monitoring and control means and institutional procedures taken during project establishment and operation and would remove or mitigate the negative environmental impacts to be at levels locally acceptable, if any, otherwise to be in compliance with the UN standards.

It is expected that the environmental impact assessment study in this early phase of the joint project study and design shall be limited to the project initial environmental examination. The environmental impact assessment study shall be carried out upon a request of Ministry of Environment and after obtaining the Cabinet approval for implementing the joint project. The responsibility for
following up the environmental impact assessment may be transferred during the project implementation phase to the private partner. This study usually requires sufficient time for developing the baseline upon which the project environmental impact shall be assessed and the appropriate steps shall be taken to minimize its negatives, if any.

The environmental requirements shall not be limited to compliance with the environmental legislations and to obtaining the approval of the environmental authorities, but they shall include the necessity to comply with the global measures in some cases based on the funders or guarantors request.

e. **Study of Social Consequences**

This study includes identifying the joint project social impacts on the relevant societies and residential communities surrounding it and assessing any consequent negative impacts. The study also analyzes the project impact on other ongoing or planned development works in the area. The project impact on the State Emiratization policies and programs relating to protecting the federal government interests and national objectives shall be studied. Therefore, the study shall include, but not limited to, indicators for the job emiratization in the private partner or a list of the jobs to be emiratized to ensure that the emiratization process is not stumbled, while raising the service quality and reducing the cost for the federal government.

f. **Financial Study**

The first step in the financial study is to evaluate the expected costs and revenues of the joint project in order to build the financial model based on them, and to identify the financial integrity of the joint project within various assumptions. The financial study shall include the following sections:

- **Expected Cost Study**

  This study shall include studying the capital costs, maintenance costs and the operational costs.

  The capital costs include, but not limited to, the costs of design, raw materials, building and construction, machines, fixtures and equipment. The capital costs also include the labor and management costs in the construction phase,
including the financial, legal and technical services and the project management, as well as any costs relating to compliance with the legislative and regulatory rules and limitation of risks relating to the construction phase.

The operational costs are associated with the operation phase in the joint project life cycle. These costs aim at ensuring the work organisation to procure the service, and include the labor expenses (including wages, salaries, employees dues, due pensions, insurance subscriptions, employees training and development, annual leaves, traveling, and any expected costs to lay off the excess employees), the raw materials, consumables, direct management costs and insurance. Any costs relating to minimizing risks in the operation phase and complying with the legislative and regulatory rules shall be calculated.

- **Project revenues**

According to the project nature, we shall distinguish between two forms of the potential partnership. The first form is known as “Government Pays”, in which the private partner provides the service to users free of charge in exchange for obtaining payments form the Federal Entity. The alternative form is known as “User Pays”, in which the service is provided in exchange for fees to be paid by the users. In both forms, Federal Entity is one who will pay the private partner. When the Federal Entity assigns the private partner/the project company to collect fees, it shall do that task in the name and for the account of the government. Therefore, such money shall not subject to retention, deduction or set off because it belongs to the public sector.

The revenue prospective varies depending on the concerned entity. For the Federal Entity, the project revenues consist of the fees collected from the users and depend on the imposed fees and the level of demand for the service. It shall be noted that the Federal Entity is the one that shall identify the fees without any intervention by the private partner. As for the level of demand for the service, it is difficult to estimate it accurately, especially if that service was not available before and thus there is no historical information explaining the pattern of consumption. Therefore, this matter may require involving specialised consultants to carry out field tests and market study. The expected project revenues depend on the approved assumptions in terms of the project
ability to issue invoices and collect fees and the fee suitability to the consumers’ ability to pay.

For the private partner, the revenues consist of the dues and payments it receives from the Federal Entity for carrying out the works assigned thereto under the PPP contract. The private partner dues and payments structure often depends on two main components:

First: Fixed component for the service and project availability (availability based fee), where the Federal Entity regularly pays fixed amounts to the partner after ensuring that the service is provided at the level, quality and standards agreed upon in the PPP contract.

Second: Variable component depending on the amount of the provided service or the production quantity (Output based fee) or demand for service. Thus, the partner payments shall be, to some extent, associated with the project revenues through the variable component (output based fee). It shall be noted that the importance of this variable component in the private partner payments relatively reflects how the demand risks are distributed between the Federal Entity and the private partner. For example, if the project company payments depend only on the project and the service availability, i.e. on the fixed element (availability-based fee), the Federal Entity shall solely bear the responsibility for all demand risks. In such case, the contract shall be a management contract or a management and operation contract.

Third: Incentives and rewards: These incentives and rewards will be paid to the private partner if it provides distinguished services in terms of its efficiency, quality and exceeds the agreed standards of quality and performance or reducing the operation costs.

On the other hand, the dues and payments structure shall include fines and penalties to be imposed on the private partner if it fails to provide the service with the agreed quantity or quality. In addition, there shall be clear provisions ensuring the government right to review the prices and to make changes in the services and their relationship with the payment mechanism and the amended price.
In all cases, the private partner dues expected throughout the project period shall ensure recovering the total costs necessary to meet the required output specifications. The financial model aims at verifying this matter based on the current net value of the cash flows, and thus identifying the joint project implementation viability in terms of attracting financing and the investors’ interest.

Financial Model

This model aims at measuring the joint project financial viability (credit validity and eligibility), financial sustainability and financing sources. The financial model focuses on calculating the current net value of the cash flows and the internal return rate of the project throughout its period based on the total expected cost and the private partner payments. A suggested structure for the project shall be designed, which explains the relationship between the Federal Entity, the private partner and/or the single purpose vehicle established by the investor especially for implementing the project, the lenders, shareholders, suppliers, subcontractors and other stakeholders.

This suggested project structure shall include the financing structure, the appropriate returns for the shareholders rights, the debt finance costs and its main conditions (including, for example, debt service coverage ratios, if any). The development of the best capital structure for the project is an essential part of this analysis, as it directly affects the ability of the project financing.

The revenues overestimation and complacency in cost estimation are the most common deficiencies when preparing the financial model. Therefore, we shall depend on actual assumptions, as they are the main elements of the financial model and affect the cash flows at various levels according to their nature. The assumptions shall be explained in details due to their significant impact on the conclusions in relation to the financial sustainability of the joint project.

We mention here for example the growth variable in demand that affects the project revenues and the private partner payments in the event that they are linked with the production quantity through the variable element (output based fee). The other variables affecting the cost elements include the inflation rate...
that affects the labor and raw material cost or the assumption of the equipment and fixtures consumption rate, which is reflected on the cost of some assets replacement and the maintenance cost.

The assumptions followed during preparing the financial model shall be in line with the way of distributing risks between the Federal Entity and the private partner. This matter constitutes the core of the joint projects. The most important assumption in the financial model relates to the finance, its structure between debt, capital and its cost, i.e. the deduction ratio rate used to calculate the current net value of the cash flows. The deduction ratio shall be calculated based on the appropriate the government bonds return (to be selected at the evaluation time and based on the project period), plus an appropriate risk margin to identified by the project consultants.

The financing structure is an essential element as it directly affects the financing viability. The financing viability and the investor interest to participate in the joint project capital depend on the calculation of the current net value of the cash flows. The internal return rate (IRR), which shall exceed the required hurdle rate, shall be calculated. The current net value of the project shall not be less than zero, taking into consideration the deduction ratio approved by the investor.

Calculation of some financial ratios shall assist in evaluating the financial institution readiness to fund the joint project. We recall, for example, the annual ratio of debt service coverage that evaluates the private partner/project company ability to serve the debt from its annual cash flow. This ratio shall be calculated based on the net operational income of the project over the year divided by the project debt service over the year. Another example is the loan life coverage ratio, which represents the number of years required to cover the loan and depends on similar calculation. This ratio is considered on the basis of the whole loan period, i.e. the expected operational cash flow divided by the existing debt in the calculation date.

The financial model shall be sufficiently flexible to accommodate modification of the main variables and to analyse the financial model sensitivity based on
them, where the impact of these variables on the current net value of the project and IRR shall be measured.

The following are some variables that may be important in considering the sensitivity:

- Project period.
- Inflation rate
- Construction cost
- Total operational costs
- Demand for service level
- Finance conditions

Accordingly and for various scenarios based on various assumptions of the main variables, the financial results of the financial model - whether at the level of IRR or the current net value of the cash flows or through calculating some financial ratios - shall explain the joint project viability to attract financing from financial institutions and the potential investors interest to participate in the capital. The financial model also helps in evaluating the need to guarantees and financial support to promote the joint project credit worthiness.

It may be useful in this phase to test the market reaction regarding the assumptions adopted in preparing the financial model. This matter shall serve as an evaluation of the project reality and determinants. We can achieve this goal by holding workshops, lectures and field presentations and requesting evaluation notes from the potential investors. The transaction Advisor shall carry out this test in cooperation with the Technical Bureau team and the relevant Federal Entity under the supervision of the project committee.

**Risk Matrix**

A risk matrix shall be prepared for each project individually. This matrix identifies the joint project risks and their occurrence probability, and assesses their financial impacts, their mitigation methods and distribution on the party(s) who can manage them. The following is a guiding list of the most common risk categories to be taken into consideration in details when preparing the risk matrix.
Guiding List of Risks

<table>
<thead>
<tr>
<th>Risks related to the project (investor and lenders may manage them to some extent)</th>
<th>Risks not related to the project (investor and lenders cannot manage them in whole or in part)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Completion risks (engineering and constructional work cost/Time-cost Control).</td>
<td>• Political risks (confiscation, political turmoil, currency transferability to other currencies or to abroad, etc.).</td>
</tr>
<tr>
<td>• Operational performance risks (Technical and operational experience).</td>
<td>• Contractual and regulatory risks (failure to meet the contractual undertakings, such as pricing formulas).</td>
</tr>
<tr>
<td>• Market risks (Size and price tariff)</td>
<td>• Macro economy risk (Fluctuations risk, such as changes in the macro economy balance in relatively short periods, exchange rate, inflation rate, etc.).</td>
</tr>
<tr>
<td>• Financial risks (financing Cost)</td>
<td>• Legal risks (legal sovereignty, effectiveness of the judicial system and regulatory procedures and arbitration).</td>
</tr>
<tr>
<td>• Environmental risks (Previous and future obligations, project delay, exceeding the planned cost)</td>
<td></td>
</tr>
</tbody>
</table>

The financial model reflects the risk distribution approach by two methods: by amending the deduction rate or by explaining the impact of these risks on each cost element. The second method may be preferred due to its focus on each cost risk and clarification of the financial impact of each risk. This method also ensures more accuracy as some risks have an impact in specific phases over project period and their impact may decrease or increase in the future during the project implementation. This matter would provide a realistic image of the project in terms of size, cost and safety, financing probability and continuity.

For more information on the risk distribution matrix, please refer to appendix (2).
g. **Study of Impacts on Public Finances**

The purpose of this study is to assess the joint project impacts on the state public finances, where it compares the project revenues that will be credited to public treasury, along with the cost the state will incur throughout the project life cycle.

Studying the project impact on public finances depends on calculating the expected net value of amounts incurred by the state after taking into consideration the revenues, if any, and the costs. The schedule of these payments shall be analysed, and they shall be compared with any other dues from the treasury, whether they are resulting from other joint projects or any other source.

As a general rule, these payments shall be within the limits of the financial endurance, i.e. they shall be within the limits of the Federal Entity budget and accepted by the public treasury in light of the government financial priorities.

If it is found that the government is not able to meet such financial liabilities, the Project Committee may amend the output specifications, without prejudice to the targeted benefits from the project, aiming to decrease the project costs on the general balance sheet.

- **State revenues from the joint project**

  The joint project may generate revenues in the state treasury if it relates to the state main public utilities such as electricity, water, transportation, etc. by imposing fees on users for using the service provided by the joint project. These fees shall not be the followed rule in all joint projects as there are some project types that do not provide direct service for the user such as a tunnel construction project. Thus, some projects may not generate any revenues in the state treasury. As for the projects which generate revenues in the state treasury such as a power plant establishment project, it is not necessary to generate revenues sufficient to cover the costs incurred by the state. The state may also support the tariff imposed on users if it found that citizens or part of them are not able to bear it.
Joint project cost for the state
The state costs in the joint projects are primarily consist of the payments it pays the private partner/project company for implementing the project. As we stated above, the project company is not entitled to deduct its payments from the collected fees if the state assigns it to the collection process. The reason behind this approach is that the private partner collects such fees for and in the name of the government, which in its turn pays the private partner/project company according to the provisions contained in the PPP contract. Therefore, the money collected by the project company shall not subject to attachment, deduction or set off because it falls under the scope of public funds. The other costs incurred by the state arise from the state financial support provided to the project. This support may be made by ensuring a minimum of demand and consequently a minimum of revenues. The support may be also in the form of capital support, where the state contributes in financing the project by soft loans it obtains from the creditors.

h. Information Verification and Financial Study Approval
The Project Committee shall verify that all information set out in the project study is accurate, confirmed and complete as much as possible. In order to do so, the committee may require the project consultants to provide the following:

- Report confirming the collected information reality and sources.
- Details, reality and appropriateness of the assumptions on which the financial model is prepared.
- Explanation of evaluation methodologies of various costs, including the financial assessment of risks.
- Documented confirmation that the financial study inputs are accurate and verified.
- Report confirming achievement of value for money principle for the proposed project, which includes “quality for cost” analysis, and ensuring that the contracting through partnership with the private sector is the ideal way comparing to the remaining methods of purchase.
- Confirmation of budget availability: This confirmation is necessary for meeting the financial liabilities relating to the project.
6.5 Project Study Approval

The Project Committee shall submit a detailed report of the feasibility study results and its recommendation on the proposed project to the Technical Bureau, which, in its turn, shall submit that report to the Financial and Economic Committee to review and discuss thereof and to take the appropriate decision, whether to proceed with the approval of the joint project or not.

The Project Committee depends in its recommendation regarding the project study results on the following standards:

- Project technical and practical implementation viability.
- Project consistency with the strategic and sovereign plans of State.
- Project suitability to the legislative, regulatory and contractual framework.
- Project environmental and social impacts and the ability to mitigate thereof.
- Project viability to attract financing from financial institutions.
- Potential investors’ interest and desire to contribute to the joint project capital.
- Project reflections on the state public finance.

If the Financial and Economic Committee agreed to proceed with the joint project, it shall refer it to the Cabinet to take the appropriate decision.

6.6 Possibility of reviewing the project study

If any changes or things occurred in a manner that may significantly affect the project implementation decision, the external market or the macro economy, or there is a force majeure that prevents its implementation, the committee may, by the help of the consultant team, update or amend the project study in line with those changes.

If such changes occurred after issuing the Cabinet approval on the project implementation and before selecting the private partner, and resulted in significant amendment to any assumptions of financial study, especially in respect of risks distribution or the financing conditions, then the Project Committee shall notify the Ministry with the details of the suggested amendments and their impact on the project implementation viability at various levels. The Ministry may take the appropriate decision regarding such amendments and submit its recommendation, when necessary, to the Financial and Economic Committee or the Cabinet to take the appropriate decision.
Chapter Seven

Project Life Cycle – Phase III

Preparation for Project Offering and Partner Selection
7-Preparation for offering the project and selecting the partner

Project life cycle

Phase three: Preparation for offering the project and selecting the partner

- Announcing a public invitation for the investors to participate for winning the project
- Defining the qualification criteria and providing the candidates with the necessary information and instruction
- Receiving the prequalification applications and raising the report of the candidates qualification to the technical office
- Receiving and opening bids and requesting for providing the necessary clarifications and completing the deficiencies
- Submitting the technical bids complying with the requirements, then opening and evaluating its financial bids. Submitting report in that regard to the technical office
- Reviewing the report and raising recommendation to the Financial and Economic Committee
- Awarding the project on the best bidder

Start

Phase End
7.1 Various Methods of Awarding

The awarding method is the cornerstone of the private partner selection process and plays a significant role in the success or failure of the joint project. Awarding process is not important for the joint projects only, but it also important for any projects carried out by the State through the traditional awarding processes.

Given the importance of the awarding method and the negative impacts on trade due to discrimination between participants, World Trade Organization issued, in conjunction with its establishment agreement in 1994, the Agreement on Government Procurement that came into force in 1996. This agreement constitutes an effective and multilateral framework for the rights and obligations related to the government procurements in order to liberalize the world trade.

This agreement parties are obliged to avoid discrimination against foreign products, services or suppliers in the awarding process. They shall be treated in the same way the local products, services and suppliers are treated. To ensure compliance with the principle of non-discrimination, the agreement stresses on promoting the transparency of awarding procedures in laws and regulations relating to the government procurements.

That agreement states the awarding methods that may be adopted for the government procurement, namely:

- **Open Procedure**: This procedure allows all interested suppliers to submit their bids. It is also known as “Public Tender”.
- **Selective Procedure**: This procedure allows only the qualified suppliers to submit their bids. It is also known as “Closed Tender”.
- **Limited Procedure**: This procedure allows only the suppliers invited for bidding to submit their bids, and it is also known as “Limited Practice”.

In line with the Agreement on Government Procurement issued by World Trade Organization, the European Union issued awarding rules allowing three methods:
• **Open Procedure**

• **Restricted Procedure**: In this procedure, the bid submission requirements are discussed with participants after their qualification. Then, the bidding requirements document is issued. Some clarifications may be issued later. After submitting the bids, dealing with participants shall be stopped and no negotiations shall be made thereafter. The winning bidder shall sign the PPP contract based on the bid it submitted.

This method is adopted in franchises awarding in states such as Italy and Spain, and it is characterized by its speed and reduced cost for participants. It is the preferred method for awarding in those states because there are concerns that post bidding negotiations may involve corruption.

• **Negotiated Procedure**: This method is adopted in awarding the complicated projects. The bidders may submit various solutions for the required service and it may not be easily to identify the method of bid assessment in advance. This matter requires discussing bids with bidders after submission. However, inquiries and requests for clarification shall not lead to material amendments in the submitted bid basics. It is assumed that the detailed negotiations include all bidders. This awarding method reflects to some extent the rules developed under Agreement on Government Procurement issued by World Trade Organization that allows negotiation. The scope of inquiries has been extended with the application of this method. The concerned entity selects the best bidder after submitting initial bids by three bidders. This step is followed by negotiations leading to submitting the two best and final bids by two bidders (This may be followed by a last round in which the last and final bid is submitted). Accordingly, detailed and extended negotiations would be made with best bidder before awarding the contract thereto. This awarding method is not significantly different in UK. However, some European countries, especially those who have strict laws in respect of the traditional awarding methods, expressed some concerns in terms of the transparency of this method due to the high level of negotiation carried out after bidding, a matter that prompted the European Union to introduce a new awarding method in 2006, i.e the Competitive Dialogue method.
• **Competitive Dialogue**: This method is characterized by the dialogue carried out with the qualified bidders. The purpose of this bilateral dialogue is to discuss the PPP contract form and the technical outputs of the joint project. Bidding requirements document is developed based on the results of this dialogue. The concerned entity may conduct a dialogue with bidders after issuing bidding requirements document to address any matters may arise in the PPP contract, a matter that may require amending the project requirements before bids submission. This method differs from the negotiated procedure method as it has a limit for negotiation after submitting bids, where the dialogue in this phase shall be limited to replying to the inquiries and requesting clarifications that may be required by the concerned entity. Due to the complexity of the PPP contracts, especially in infrastructure projects that constitute the majority of the joint projects implemented by virtue of PPP contracts, the competitive dialogue may be the most appropriate way to select a partner from the private sector.

7.2 Invitation for interest expression and prequalification

The international best practices recommend starting the project offering process with invitation for interest expression and then the competitor prequalification.

In the cases requiring to do so, invitations for interest expression shall be sent to potential investors from the private sector to know to what extent the private sector interests in and desires to implement the project before taking any procedures for offering thereof. The project offering shall be made by announcing the project in various mass media. This announcement shall include a brief of the project, its objectives and the proposed implementation site, if any, method of sending the interested parties’ reply and any other information or conditions relating to the project. Then, the project committee/concerned Federal Entity shall consider the replies to invitations for interest expression, which are submitted by the private sector. Based on this consideration, it shall be decided whether the persons interested in competing for the project implementation shall be invited for pre qualification or not.
After getting a positive and encouraging result from assessing the replies to invitations for interest expression, which are received from the potential investors from the private sector, the prequalification phase shall commence. This phase aims at making the project offering process more efficient for both parties by ensuring the participation of the appropriate candidates only in the final bids submission. The qualification conditions shall be logical, effective and do not impose unjustified restrictions reducing the level of competition. Preferably, the qualified bidders shall not less than three bidders.

The prequalification procedure ensures the following:

- Verifying that the private partner has the technical and financial qualifications enabling it to implement the project sufficiently and effectively and to meet its entire obligation under the contract.
- Avoiding wasting time in the final bid submission phase, which is basically a long phase, by excluding the inappropriate parties.
- Filtering the participants to get a reasonable number of final offers, a matter reducing the costs and efforts made in the assessment process.

a. Prequalification Document Preparation Procedures
The Project Committee shall prepare, in cooperation with the Technical Bureau, including the consultants, the prequalification document. This document provides the candidates with the required information and instructions regarding the prequalification process, and identifies clearly any evaluation standards and the process method. Moreover, it explains any special requirements and requires candidates to introduce themselves by providing the appropriate information.

b. Prequalification Document Contents
- Terms and conditions of the prequalification documents issuance.
- Objective of the prequalification document issuance
- Information about the project including, but not limited to:
  - Detailed description of the project, including the project overview and background and the need for it.
  - Specific legal requirements and related legal controls
✓ Matters relating to the land, if any, or any other assets to be provided by the Federal Entity.
✓ Specific performance standards
✓ Specific financing standards
✓ Summary of the expected risk distribution
✓ Conditions of membership in alliances

- Project offering process
- Project phases and schedule
- Explanation process and memorandums
- Changes in the alliance formation
- Participation in more than one alliance
- Bid bond
- Participant instructions, including but not limited to:
  ✓ The submission application form, including the obligatory elements to facilitate the assessment process
  ✓ Late submission of the prequalification application
  ✓ Participants status and formation
  ✓ Communication policy
  ✓ Additional information
  ✓ Announcement of the ongoing legal procedures that may affect the alliance formation
  ✓ Reasons of exclusion from qualification.
  ✓ Details of communication with the project committee.
  ✓ Information required from the participants
  ✓ Alliance abilities and strengths
  ✓ Proposed alliance formation and structure, along with clear identification of member’s role.
  ✓ Participants skills and experiences in similar and identical projects
  ✓ Current workload of the alliance members
  ✓ Strength of undertakings between the alliance members and debtors, if any.
  ✓ Market and financial rank.
  ✓ Shares and ownership (if any)
✓ Implementation viability
✓ Compliance with and ability to abide by the project schedule
✓ Ability to borrow, increase the capital and giving guarantees
✓ Ability to manage projects
✓ Ability to manage risks
✓ Evidence on understanding the project main requirements and complexities.
✓ Previous relationship with the State
✓ How to apply quality assurance regulations
✓ Methodology in the partnership projects

• Assessment process, which include information about:
  ✓ Assessment methodology
  ✓ Assessment standards

c. Prequalification document announcement and distribution

The Project Committee announces, via its website, the official gazette, the audio-visual media and a number of local and international magazines, the prequalification process commencement and invites the interested parties, regardless whether they previously expressed their interest or not, to receive the prequalification document. The purpose of the announcement publication in popular and widespread newspapers and magazines is to attract the international investors.

The announcement shall include at least the following:

• Brief description to the project
• Project objectives
• Type and period of the PPP contract
• How to obtain the prequalification document and the period identified for that.
• How to submit the prequalification application and period set for submission. Sufficient time shall be given to meet all these requirements.
The project announcement may be followed by an open session to offer the project and motivate the private sector interest, provided that no information not included in qualification document shall be deliberated.

d. Application Receipt
The Technical Bureau shall receive the prequalification applications in day set in the prequalification document. The envelops shall be opened after expiration of the last date identified for the qualification application submission in a session that also identified in the prequalification document, in presence of the work team and the applicants’ representatives. In this session, envelop contents and shortcomings shall be recorded, if any. Then, the list of the prequalification applicants shall be posted on the website.

e. Application assessment and candidate notification
The project committee, assisted by the Technical Bureau, shall study and assess the received qualification applications and shall submit a reasoned report to the Ministry, which in turn send it to the Financial and Economic Committee. Such report shall include a suggestion of the qualified and unqualified candidates’ names. The application assessment shall be divided into two phases. In the first phase, the application formalities shall be verified, where the qualification documents required from each participant shall be verified in terms of validity and accurate compliance with the prequalification document requirements. Any participant fails to comply with the requirements shall be excluded.

In the second phase, an assessment table identifying the main categories and sub-categories of all assessment criteria shall be prepared. These categories shall be given relative weight according to their importance. According to that table, a mark will be given to each candidate, and the candidates exceeding the minimum mark shall be qualified. If the candidate qualification application includes a number of companies (alliance), the assessment of these applications shall be carried out based on assessing the qualification and abilities of each member of the alliance and define whether they jointly meet the qualification criteria and requirements or not, where application consideration shall be carried out according to the
role of each alliance member in the project. The assessment criteria and the relative weight of each of them shall be developed during the preparation of the prequalification document. The assessment criteria shall depend on the information required from the participants. Therefore, this information shall be clear in prequalification document to help the candidates to concentrate in on their application and not to list any additional or unnecessary information. The assessment criteria vary depending on the project and shall be carefully developed for each individual project to attract an acceptable number of participants. If the criteria are strict, they may limit the number of the qualified participants and vice versa.

The Project Committee shall, in cooperation with the Technical Bureau, prepare a reasoned report on the qualification application assessment process and its results based on the conditions set out in the qualification document. The Project Committee shall submit this report, which includes a suggestion of the qualified and unqualified candidates’ names, to the Ministry, which in turn send it to the Financial and Economic Committee to take the appropriate decisions thereon. The Financial and Economic Committee may take the report recommendation as it is, ask the Project Committee to provide clarifications, or to amend its decision. The Project Committee shall notify each candidate the result of its qualification, whether negative or positive.

7.3 Dialogue phase

The Project Committee shall discuss the project technical specifications and financial structure and the contract form with the qualified candidates before issuing bidding requirements. This dialogue shall facilitate the identification of the project technical requirements and the specifications of the service to be provided by the private partner for preparing the bidding requirements in conformity with the project requirements. This dialogue also motivates the qualified candidates to find innovative solutions for the project. The qualified candidates may suggest additional activities complementary to the project, which would reduce the cost incurred by the Federal Entity.
The Project Committee shall conduct a dialogue with the qualified candidates and funders to reach a comprehensive conception to identify the technical requirements, practical means and financial structure to achieve the joint project.

The dialogue is a procedure carried out by the Project Committee with the qualified candidates and funders to get the qualified candidates’ opinions and comments on the points and issues that the Project Committee needs to crystallize in order to be able to develop a complete conception of the joint project.

a. Dialogue Preparation

The dialogue shall be carefully prepared by providing the main information accurately and formulating the questions relating to the issues to be discussed clearly. Hiring experienced consultants, especially in the more complicated projects, may increase the dialogue effectiveness and credibility. In such case, it shall be ensured that the consultants are impartial and have no interest in any specific result.

During dialogue preparation, care must be taken to include the following in the dialogue:

- Equality and non-discrimination between the qualified participants, especially non-discrimination in providing information between a qualified participant and another, giving it an advantage over others.
- Transparency, a matter that requires documenting the dialogue properly in respect of the adopted methodology and the points to be discussed. The writing communication with participants may help in the transparent documentation of the dialogue process.

b. Invitation for Participating in the dialogue.

The dialogue phase starts officially with inviting the qualified candidates to participate in the dialogue. This invitation shall explain the committee targets for that dialogue and identifies how to conduct the dialogue. That invitation shall also identify:

- Concerned schedules.
- Dialogue main issues.
- Restrictions that participants shall be aware.
In addition, it is a good practice to hold a public session for all qualified candidates, during which the dialogue methodology shall be explained and the important matters are reported. This session gives the participants a chance to require clarifications about any matter. This matter ensures equality between all participants in dialogue to obtain the same information with the same way. This session would help all participants in planning the various dialogue courses by bringing the appropriate work team for attending it and, if possible. Documents shall be distributed as an agenda to detail and explain the matters to be discussed before any session.

c. **Dialogue Structure**

There is no specific way to conduct the dialogue. The dialogue may be executed by inviting the qualified participants for an open day to get their opinions, holding individual meetings with each individual participant, or asking the qualified participants to fill a survey form. The Project Committee may detail the process and any related procedure meets its requirements. All participants shall be treated in a transparent and non-discriminating way that ensures equality in treatment.

d. **Dialogue Closing**

Upon completing the joint project conception from all technical, financial and legal aspects with the project committee, the Project Committee shall notify the participants of dialogue closing and seek to complete the terms of reference. At that point, there will be no room for further discussions.

**7.4 Project bidding Requirements Document Preparation**

The project committee, assisted by the Technical Bureau, shall prepare bidding requirements document that includes the PPP contract draft, the project data, bidding procedures and the project financial, technical and administrative elements.

a. **Bidding Requirement Document Parts and Sections**

Bidding requirements document constitutes the basis of the private partner selection process. It put the rules upon which the awarding process is based, so it shall explain the project main data, its financial, technical and
administrative elements, the bidding method, bids assessment method, and the PPP contract draft to be signed.

The working team shall prepare bidding requirements document for each project, consisting of two parts:

**Part 1** shall include three sections as follows:

- **Section 1: Project data, including:**
  - All project components and elements.
  - Project technical and legal framework.
  - Service specifications expected from the project.

- **Section 2: Bidding Procedures, including:**
  - Project site visit procedures.
  - Virtual Data Room access procedures.
  - Conditions and way of bidding and submitting the required documents.
  - Forms of the technical and financial proposals and quotations.
  - Assessment rules and methods
  - Procedures of announcing the winning bidder.
  - Time limits of each phase.

- **Section 3: Financial, Technical and Administrative Elements of Project, including:**
  - Establishment of the project company and ownership of its shares.
  - Financing Structure.
  - Minimum technical and financial requirements.

**Part 2** consists of the PPP contract draft and its attachments as set out in Article 12 of Partnership Law.

The bidding requirements document preparation depends on various sources of information varies depending on their parts and sections: Section 1 related to Project Data depends on the results of the due diligence study carried out by the consultant team during the project study and design phase. Section 2 details and explains the logistic procedures and instructions relating to the bidding and bids assessment methods. This section is a model section has the same core in all projects, but it varies in terms of the time limits, bids assessment elements and
their weights. Section 3, relating to the project design and its financial, technical and administrative structure and the identification of the minimum requirements, and part 2 of the bidding requirements are for each individual joint project and depend primarily on the results of the dialogue the Project Committee conducted with the qualified participants.

Part 1 of Bidding Requirement Document: General Conditions

Section 1: Project Details

This section focuses on the results reached in the studies carried out by the consultancy team during the project study and design phase. These studies discuss deeply the project technical, legal, environmental and social aspects. This section includes a comprehensive and clear list of all definitions used in the bidding requirements document, which shall match the definitions set out in the PPP contract draft.

❖ All Project Components and Elements

This paragraph includes a general brief and background on the project and all details relating to its elements, including the expected services, the characteristics of their market and the initial estimations of demand for them. Moreover, this paragraph includes information about the site, characteristics of the surrounding geographical area, the project land area, any existing facilities on this land, which will be used by the project company, and any other assets may be provided by the Federal Entity.

❖ Project Technical Framework

This paragraph outlines the project technical aspects, including the project scale, the technology expected to be approved and the technical features of any assets that Federal Entity may put at disposal of the partner/the project company such as facilities, plants and equipment. It includes also the technical characteristics of the project site such as the terrain shown in the topographic study as well as the soil nature and its underground components as set out in the geotechnical study. The technical and legal framework explains the assets that will be devolved to the Federal Entity after the PPP contract expiration
and their technical condition in terms of productivity and effectiveness. These assets shall be in an acceptable technical condition, a matter that requires the project company to carry out a regular maintenance and replacement works. The technical condition of those assets shall be identified by determining their remaining life or working life and comparing it with the standards followed in the relevant field.

- The technical framework includes also requirements according environmental and social legislations and regulations as well as the procedures to be followed by the partner/project company to obtain the approval of the concerned entities. In this regard, this framework briefly explains the initial environmental inspection results and any information relating to the environmental impact assessment, if conducted, and identifies the requirements expected by the project company in respect of this subject.

- **Project Legal Framework**
  This paragraph explains the regulatory and legislative framework of the joint project, where it refers to the relevant laws and regulations. It also highlights any licenses and permits to be obtained, and gives an overview on any existing contracts with third parties and the status of these contract after the contract awarding. The project legal framework includes any legal matters relating to the site, its ownership and the expected way to provide it, as well as the details of granting/acquisition procedures, including the expected timetable of their implementation.

- **Project envisaged Services and their Specifications**
  The services envisaged form the project are the outcomes upon which the awarding is carried out under PPP. These services shall be identified by the Federal Entity in the project study and design phase in light of the need analysis. Therefore, they are supported by information presented in this paragraph of the bidding requirements documents. This paragraph identifies also the specifications of these services representing the corner stone of the PPP contract, as they constitute the basis of the service level agreements.

  The service good quality positively affects all concerned parties to the PPP contract. On one hand, this matter benefits the Federal Entity, which in turn
will remain responsible for service provision under the PPP contract towards the citizens who are seeking to obtain a service level meets their requirements. On the other hand, the project company depends on meeting the required service specifications in order to secure its entitlements and to avoid penalties resulting from the low service level. In addition, the lenders benefits also from the good quality of the provided service as they aspire to providing a good service generating sufficient returns to pay the debt service.

The required service specifications shall be based on applicable objective criteria in compliance with the best practices in similar projects. Internationally acceptable measurement units shall be used to measure these service specifications, e.g. specifications of International Organization for Standardization (ISO).

Section 2: Bid Submission Procedures

These procedures include, but not limited to, the following:

❖ Project Site Visit Procedures

This paragraph includes all details and arrangements relating to the field visits made to the project site. These visits are arranged with each potential partner separately according to a specific timetable, where the site is visited and the bidder can enquire any matter. The visit may include holding a meeting with the management members and staff if the project is in place and the PPP is aiming at development, renovation, preparation, maintenance, rehabilitation and/or operation. A proper time shall be allocated for these filed visits, noting that those visits are optional and therefore some potential partners may opt to not make them.

❖ Procedures of Virtual Data Room entry and communication with the project committee.

The Virtual Data Room contains all data and documents relating to the project. The bidders depend on these data and documents to carry out their due diligence study and prepare their bids. The Project Committee and work team shall collect this information from various sources, including the studies carried out by the consultancy team, in order to provide a complete scope as
much as possible to bidders about the project and its components and to facilitate the bid preparation and awarding. Although the Project Committee makes its best endeavors to provide correct information, it does not guarantee that the documents and data available in Virtual Data Room are correct and the bidders shall verify their accuracy and correctness. Accordingly, this paragraph of the bidding requirements document shall indicate that there are no guarantees for the correctness of information listed in the Virtual Data Room and that they are merely outcomes of the investigation procedures taken by the Project Committee with the assistance of the work team and the consultancy team. It is very important for the bidders to fully verify the information accuracy before submitting their bids, as the failure to achieve any of the assumptions may delay the financial closure and threatens the entire awarding process.

This paragraph also includes the procedural rules relating to the Virtual Data Room, including the way of accessing the information, the time limits and any fees for Virtual Data Room use (if any), as well as any document required to be signed by the bidders, including Non-Disclosure Agreement.

As the Virtual Data Room is also considered a mean of communication between the bidders and the project committee, this paragraph details the way of communicating with the Project Committee to ask questions and the method to be followed by the Project Committee to provide the bidders with clarifications, answers, timetable and deadlines for this process.

This paragraph also identifies the maximum deadlines to receive the bidders’ observations and inquiries regarding the PPP contract or any other documents suggested by the project committee.

❖ **Conditions and Method of Submitting Bids and Required Documents**

This paragraph of bidding requirements document includes the procedural details as well as the terms and conditions relating submitting bids. The requirements are identified in terms of the submission place and deadline (date and time). The paragraph also contains the method of submission, including but not limited to:

- Number of printed copies and any electronic copies may be required.
• Bid validity period as identified by the project committee.
• Details related to number of envelops to be submitted and how they are marked.
• Initial guarantees and securities in terms of their conditions, values and periods.

This paragraph lists in detail the information and obligations required from the bidders as well as the documents to be submitted and their details. The paragraph shall be drafted very clearly in a manner that would raise the bids quality.

This paragraph identifies the rules to be followed if any modification occurs in the structure of the company alliance qualified by the project committee. Such modification is considered a common matter, where any member may withdraw from the alliance during the bid preparation. Thus, the paragraph identifies the procedures and rules to be followed in such case, which would enable the alliance to maintain the strength and eligibility that were the main factor of its qualification and allowing it to move to the bid preparation phase. For example, the Project Committee may request the alliance to suggest a member instead of withdrawing member during a specific deadline, and then reassess the alliance based on the same criteria approved during the prequalification.

**Technical and Financial bid Models**

• This paragraph of bidding requirements document identifies the formal models of technical and financial bids, which are issued by the Project Committee and bidders adopt thereof to submit their bids.

• **Technical bid Model**
  The technical bid model developed by the Project Committee in cooperation with the work team aims at clarifying the submitted solution at three levels: technical level, legal level and financial level.

• **Technical Solution Model**
  The Project Committee requests under this model all information and details relating to the technical solution that the bidders chose to adopt,
including the developed designs, the approved method to submit the outcomes, the operation methodology, the plans of meeting the required performance criteria, the expected service quality and its development throughout the contract period, the measures to be adopted for ensuring the services continuity and quality, the suggested maintenance periods (including any replacement of assets), the suggested management team and its structure, the anticipated number of the company staff and their regulation, safety plans, and the plans followed to comply with the follow up and reporting requirements.

This information is clarified in tables, some of which are empty and shall filled by the bidders. This model contains also the draft of Level of Service Agreement for all service elements. The form and content of the Level of Service Agreement differ from one project to another, but in all cases, it forms an integral part of the technical solution and the PPP contract to be signed later.

• **Legal Solution Model**
  This model aims at providing the Project Committee with all details relating to the private partner/suggested project company, in the event of winning the contract. Under this model, the Project Committee requests information about the project company structure, the incorporation agreements to be adopted as well as information about the alliance members and their respective undertakings. The model contains also enquiries aims at ensuring compliance with applicable laws and regulations, including, but not limited to, the environmental legislations.

• **Financial Solution Model**
  This form is very important, as it constitutes the cornerstone of the financial bid. The Project Committee aims, through this model, at standardizing the method of information provision in order to facilitate the comparison between the submitted models with each other as well as the comparison between the submitted models and the financial model prepared by the Project Committee in the project study and design phase. The financial solution model differs depending on the projects. Therefore, we will
provide below the outlines of this form content, which shall be reviewed and updated according to the nature and specificity of each project.

As for the form, the financial model development requires using computer programs. From this point, the Project Committee identifies the programs that may be used and requests to submit the form in two formats; hard copy and soft copy with an explanation of the method of amending the inputs according to the approved scenarios and assumptions.

As for the content, the Project Committee identifies the project commencement date to be approved in the financial models submitted by all bidders as well as the time basis to be approved (monthly, bimonthly or annually) and the discount rate to be used.

The Project Committee requests the details of the financial database approved for the financial model development, which includes the capital expenses, operation and maintenance costs, the expected revenues and tax transactions (if any), which are used in calculating the net current value of revenues.

The approved assumptions are a fundamental pillar to develop these expectations; therefore, the bidder shall detail them.

The project financing structure is the cornerstone in the financial model. So, the bidder shall detail the elements of that structure in terms of type and level of debt financing and share financing, financing plan, schedule of the financing assumptions in which all sources, amounts and uses of financing, terms and conditions, main costs, margins and fees are identified.

The Project Committee may request clarification for any possible contribution by the alliance members in the equities and its percentage. This shall include the details of equities, shareholders’ loans, source of money, the financing amount each shareholder committed, and the date of their contributions. The debt financing details shall be identified, including its cost, fees, margin, payment schedule and interest capitalization grounds.
The bidder shall identify risk distribution method upon which the financial model depends, and the bases and costs relating to measures to be taken for hedging risks. It shall also explain the basis of risk pricing.

The Project Committee may request the bidder to calculate some financial rates and proportions and include the same in the financial solution, including internal rate of return, the return on capital, debt-to-equity ratio and debt service coverage proportions.

- **Financial Bid Model**

It should be noted that the financial bid is limited to the price requested by the private partner to provide the required services. This price represents the project cost in the Federal Entity budget. This bid does not include any details in contrary to the financial solution that list in details all financial information and constitutes a part of the technical bid. Under this model, the Project Committee identifies the form to be adopted by bidders in submitting their financial bid, such as the method of scheduling (monthly or annually …..), adopted currency, the foreign exchange rate, value conversion into alphabetical characters, and the approach that the committee will take if the bid value written in letters differs from the value written in figures. In addition, the Project Committee shall identify through this model any documents to be attached to the financial bid and their details. These documents include, but not limited to, the initial insurance and its form (letter of guarantee), the issuing entity (approved bank or any bank working in the state), format and term, provided that it shall be unconditioned and payable; the good performance bond required from the winning bidder and its value; and any other guarantees that may be required by the project committee, such as insurance against delay in the service commence and insurance against maintenance obligations. The bidders shall identify the insurance cost as a separate item from the financial bid.

- **Assessment Rules and Methods**

This paragraph of bidding requirements document is of a paramount importance in terms of the role it plays in promoting the transparency of
selecting the winning bidder. Under this paragraph, the Project Committee identifies the rules it will follow in evaluating the submitted bids.

The bid assessment is based on the joint technical and financial assessment method. There are various patterns of this method, which varies from one project to another. These patterns include something called “Least cost selection with technical hurdle”, where the final assessment focuses on the classification of the financial bids of the bidders getting the minimum technical score. The bidders are equal in terms of the technical aspect, and thus the financial bid plays the main role in identifying the winning bidder. Points may be given to bidders if their technical solutions are distinctive, for example in respect of innovation. Such points shall be added to the score given to the financial bids. These points are called “Brownie Points”.

The other pattern of the joint technical and financial assessment method is called “Quality and Cost Based Selection”. In this pattern, the total points are calculated as the average of the technical bid points and the financial bid points based on the weights allocated to each of them. For example, a weight of 60% may be allocated to the technical points against 40% for financial points or 70% against 30% depending on the importance given by the Project Committee to the technical bid. These two patterns may be integrated together by calculating the total points according to the technical and financial weights for the bids getting the minimum technical score.

In this paragraph of bidding requirements document, the Project Committee identifies the followed assessment method and the relative weights allocated to each of technical and financial bids. The committee may also identify the extent of disclosing the point allocation details. This matter promotes transparency. However, it should be taken into consideration that disclosing the detailed method of point allocation may lead to adapting the bids to meet the assessment criteria, a matter that may result in providing bids do not achieve the best value for the project.
The Winning Bidder Announcement Procedures

This paragraph identifies the details related to steps followed to announce the winning bidder.

The contract shall be awarded to the bidder providing the best bid according to the Project Committee assessment and the Financial and Economic Committee approval. The project committee shall inform all candidates with the selection process result.

This paragraph details the method to be followed by the Project Committee to announce the winning bidder. This method may be a public session to which bidders are invited, a press conference held for this purpose and/or an announcement posted on the website or any other way the Project Committee deems appropriate.

Deadlines for Each Phase

This paragraph of bidding requirements document shall be in the form of a schedule explaining the expected date of each entitlement and the specified deadlines, starting from entering the data room till announcing the winning bidder. This schedule may depend on intervals between the entitlements instead of specific dates.

Section 3 of Part 1 in Bidding Requirements Document: Project financial and technical elements

This section focuses on the results reached in the dialogue between the Project Committee and the qualified candidates within their effort to keep the project in line with the international best practices and the investors’ expectations, a matter that contributes to the project success.

Project Company Establishment and Shares Ownership

If the joint project nature requires establishing a company “project company”, the applied details to be followed by the winning bidder in relation to establishing the company shall be included in the bidding requirements.

The Project Committee shall identify the deadline for submitting the project company statutes to the Project Committee, which in turn verifies that these
statutes comply with the applicable laws and the bidding requirements document in preparation for approving them. This paragraph also includes any requirements relating to the project company form, whether the federal government will participate in its establishment and its contribution in its capital, and the number of the government representatives in the company board and the votes they have in respect of some strategic matters.

The Project Committee may develop a suggested draft for the project company statute and submit it to the participants as part of the bidding requirements document to make their comments based on the previous meetings and discussions made during the dialogue with the qualified candidates, a matter that accelerates the awarding process and prevent any surprises.

In this paragraph, the Project Committee seeks to make sure that project company complies with the corporate governance. For this purpose, the committee is entitled to require the participants to provide a detailed plan for the corporate governance to be followed.

**Financing Structure**

The purpose of this paragraph of bidding requirements document is to ensure the bidders’ commitment to provide financing. The Project Committee requests details about the financing sources such as the equities and debts. It may impose a specific financing structure that limits the debt financing, or may identify a specific range for the debts to equity ratio, provided that the project company shall not exceed such ratio, and relate this condition with a deadline to be identified by the Project Committee. The financing structure differs from one project to another, so the Project Committee depends in its requirements in this regard on the results reached in the dialogue made with the qualified candidates before issuing the bidding requirements document, ensuring that these requirements are in line with the bidders’ expectations and the international practices and experiences.

**Minimum Technical, Legal and Financial Requirements**

This paragraph of bidding requirements includes the minimum technical and financial requirements to make sure that the submitted bids meets the expected objectives of the project as set out during the project design and study phase.
At the technical level, the requirements relate to achievement of the required outcomes, appropriateness of the design, development and operation elements for the targeted service specifications, the bid conformity to the standard followed specifications, achievement of the technical safety elements, the use of proven technologies, easiness of the project operation and maintenance, the environment protection and the expected quality of services and their conformity with the performance standards and indicators identified in the bidding requirements, and the availability of sufficient measures to ensure their continuity.

At the legal aspect, the requirements relate to the structure of the alliance submitting the bid and its legal status and the legal status of the companies participating therein (including any bankruptcy record or conviction of committing crimes), the conditions of subcontracting, the suggested amendments to the PPP contract draft, and any increase in the risks resulting from these amendments in comparison with the risks matrix prepared in the project study and design phase.

At the financial level, the requirements include an accurate and comprehensive financial model based on assumptions and scenarios required by the Project Committee. The financial bid shall explain all forms and conditions of financing, explain the method followed by the Project Committee to manage the risks, and meet the minimum requirements and conditions of financing.

In this paragraph of bidding requirements document, the Project Committee identifies the requirements that shall be met by the bids to comply with the conditions. These requirements vary from one project to another. In most cases, these requirements are divided into two types, the first type is obligatory requirements that shall be met, and the second type may be deviated in a limited way according to the provisions of the bidding requirements to provide acceptable bids. It shall be noted that these requirements shall not limit or kill the spirit of innovation nor be cumbersome to a level that would lead to excluding strong bids without
reasonable grounds in an early phase due to not meeting one of these requirements.

B. Part 2 of Bidding Requirements Document: PPP contract and its attachments

Partnership contract consists of a set of contracts, undertakings, guarantees, appendices and any related agreements that govern the contractual relationship between the Federal Entity, the project company and any other concerned party such as the emirates’ local governments, guarantors, funding banks, international organizations, the state concerned authorities and institutions, public institutions or the private partner awarded the joint project.

There is a set of things shall be identified in the PPP contract, and thus, the federal government may develop standard contracting provisions, which shall be general provisions taking into consideration the internationally acceptable general matters and provisions. These standard provisions aim at developing a clear perception of the method to be followed by the Technical Bureau and the Federal Entity in dealing with the PPP contracts, especially in relation to the type of risks involved in these contracts and how to transfer them, reducing the negotiation period and consequently reducing the cost incurred by the parties involved in the project. It shall be noted that those standard provisions shall not constitute ready-to-sign contract forms, but other things specific to each sector or project shall be taken into consideration, including, but not limited to, the private partner dues structure and their payment mechanism.

The structure of dues to be paid to by the Federal Entity to the project company varies depending on project. These dues may be in exchange for providing services, may be based on availability charge, or may be a structure combining both forms. On the other hand, fees may be imposed on users for benefiting from services in some joint projects, while the service may be free of charge in other projects. This matter depends on the joint projects nature.

If the services are provided to users in exchange for fees, these fees shall be approved by the Concerned Authority in the federal government “Cabinet”.
Therefore, the relationship between the project company and Federal Entity is a direct relationship. The project company provides the public service without collecting its dues from the beneficiaries to its own account, and the Federal Entity collects fees through its employees or systems. However, the project company may be authorized to collect the fees of the joint project on behalf of the Federal Entity. Thus, the money collected by the project company shall not subject to retention, deduction or set off because it is a public property.

The PPP contract draft constitutes an integral part of the bidding requirements document. However, drafting the PPP contract does not mean that it may subject to significant amendments because the draft outlines have been agreed upon with the qualified participants during the dialogue period, taking into consideration the international best practices. Accordingly, the bidders’ notes shall be limited to revising some matters in the draft. Discussing the PPP contract wording with the qualified partners significantly contribute in accelerating the contract signing after awarding the project to the winning partner.

Hereunder some of the standard articles that may be included in the PPP contract:
1. Works that each party shall do or refrain from doing it, and rights and obligations of each party.
2. The project technical, environmental, financial and economic requirements and the associated obligations of each party.
3. Contract term, provided that this term shall not exceed (suggested 30 or 35 years)
4. Financing basics and mechanisms
5. Details of all dues that will be paid to the private partner in exchange for performing the works agreed upon in the contract, the mechanisms of calculation and payment, mechanisms of price review, the service price and change in service requirements.
6. Security and safety requirements and the basics of their supervision, inspection and assessment.
7. Measurement and Assessment indicators of Private partner performance (KPI)
8. Reports to be prepared by the private partner and their submission dates.
9. Risks distribution among parties, as well as the measures and procedures to be followed to reduce those risks.
10. The mechanisms and procedures of addressing the impacts resulted from the technical and technological developments/ upgrades and their effect on the project implementation, the service price, investor rights, etc.
11. Rights of government intervention and the cases leading to that intervention, and the government right to request changing the management.
12. Procedures of complaint and grievance and their consideration mechanisms, arbitration and contract termination
13. The controls obliging the investor/ partner to use the governmental entity employees, as well as identifying the emiratization ratio therein (to be identified depending on the nature of each project)
14. Explanation of the obligations relating to the intellectual property rights of each party and ensuring that the private partner shall transfer knowledge and experience to the government authority, including providing an integrated and organized program for training and qualifying the Federal Entity employees, focusing on UAE nationals in order to be able to manage and operate the project after the expiration of the contract with the private partner.
15. Guarantees and securities provided by each party.
16. Moneys, properties and assets owned by the government, which will be at the disposal of the private partner throughout the project period to be able to perform its obligations, in addition to the rights and obligations of the private partner in respect of those assets and moneys.
17. Mechanism and time of transferring the joint project to the government or its representative.
18. Penalties, fines and actions that may be imposed on the private partner in the event of violating its obligations under the contract.
19. Procedures of securing the continuity of the project and works contained in PPP contract works upon its expiration or termination or if the private partner violates its obligations under the contract.
20. The rules applied in the state for dispute resolution, including mediation and arbitration.
7.5 Approving Bidding Requirements Document and Informing the Qualified Candidates therewith

- After completing discussing and revising the bidding requirements document, it shall be approved initially by the project committee.
- The Project Committee shall submit the final copy of the bidding requirement document to the Ministry to submit thereof to the Financial and Economic Committee for final discussion and revision. Then, the document shall be attached to the project file and submitted to the cabinet to consider thereof.
- The cabinet approval on the bidding requirements document shall include an enforceable provision regarding approving the PPP contract draft, including the articles and clauses relating to dispute settlement and arbitration. Accordingly, if any dispute arises between the private partner and the Federal Entity, the private partner does not have to wait the cabinet approval on the arbitration clause mentioned in the PPP contract. On the other hand, the cabinet approval on the bidding requirements document shall give the green light to commence the procedures of selecting the private partner and the contract awarding.
- The Project Committee shall then inform the qualified candidates with the bidding requirements document in any way it deems appropriate, then the candidates shall prepare their technical and financial bids according to the rules set out in the bidding requirements.
- The Project Committee may impose a non-refundable participation fee to be paid by the qualified candidates to get the bidding requirements. This mechanism enables the Project Committee to measure the continuity of the qualified candidates’ interest and seriousness in participation and submitting bids.

7.6 Bid Preparation Phase

The qualified candidates who obtained/sold the bidding requirements document shall prepare their technical and financial bids in this phase. For this purpose, they may access the documents in the Virtual Data Room and may carry out field visits to the joint project site, provided that this matter shall be made according to the rules and time limits set out in the bidding requirements.
The Data Room constitutes a point for communication between the bidders and the Project Committee. The Project Committee shall provide the bidders with clarifications and answers to the asked questions. The Project Committee shall be transparent and impartial in communicating with bidders. All correspondences exchanged between the Project Committee and the bidders shall be in writing, and all clarifications and answers shall be distributed on all bidders, provided that the questions shall be explained without disclosing the identity of the bidder who has asked the question. Excluded from this procedure are the questions relating to the technical solution because its represents an ownership right of each bidder. Therefore, they shall not be distributed on other bidders. During that period, the bidders may be required to provide their observations regarding the PPP contract draft or any other documents such as the bylaws of the project company (if they are drafted and suggested by the project committee).

7.7 Bids Receipt and Opening

The bid submission shall be limited to those participants qualified by the Project Committee and got the bidding requirements document from the project committee, whether directly or through their representatives. Bidding requirements document may not be given to any other entity.

The bids shall be submitted in the place and time set out in the bidding requirements document. The time may be in the form of a deadline or a specific date. Preferably, specific date and time shall be defined for submitting the bids to the concerned entity, as approving a deadline opens the door for some participants to submit their bids in different dates, a matter that prevents receiving the bids in a public session in the presence of by all bidders.

The Project Committee may opt to receive and open the bids in a public session to promote transparency. The bidders’ representatives to are invited to submit their bids in a specific date and time. Then, the Project Committee shall receive the bids in their presence. The Project Committee may verify that the bids are completed during this public session in terms of submitting the required documents, especially the bid bond. If any bid is incomplete, the Project Committee shall take the appropriate decision, whether to reject it or give its bidder an additional period to complete the shortcomings.
In case of not holding a public session for receiving the bids, the concerned team/entity shall take the necessary arrangements to receive the sealed envelopes containing the bids and keep them in a safe way till the date identified for opening them.

If only one bid is received, the Project Committee shall report this matter to the Financial and Economic Committee through the Ministry in order to take the appropriate decision in this regard. In all cases, the Financial and Economic Committee reserves the right to cancel, postpone or terminate the awarding process at any time before awarding the contract at its sole discretion for any reason and without incurring any obligations or costs towards the participants in the process.

7.8 Bid Assessment

A. Technical Bid Assessment

The Project Committee shall open the submitted technical bids and may request the bidders to submit the required clarifications, complete the shortcomings and confirm the obligations that may be included in the bid within a specific period.

The process of assessing the submitted technical bids shall start with an initial preparatory phase in which the Project Committee verifies that the bids are complete and the minimum requirements and conditions are met.

The Project Committee may verify the bid completeness during the public session of bid opening or may carry out this process in a closed session. Along with the completeness verification, the Project Committee shall consider the technical bids, including the technical, legal and financial solutions, to make sure that they meet the minimum requirements set out in the bidding requirements document.

The Project Committee may request the bidders to confirm their technical and financial obligations and provide clarifications regarding any ambiguities in their technical bids or any attached document. It may also request them to complete any shortcomings, whether documents or other information, within a specific period it sets. This procedure aims at not excluding bidders for any reasons that may not be material, such as a minor shortcoming in the financial security value
or providing a security with the same value in different currency, because they may be serious competitors and have the required abilities and desire to implement the project.

During the process of requesting clarifications and responding to the inquiries by the project committee, the questions and replies shall be in writing. The question shall refer to a specific item of the bid and shall not suggest any amendments to the bid. The answer or reply shall be accurately checked before accepting it as a clarification. If the reply includes an amendment to the bid, it shall be excluded and its contents shall be ignored.

Upon the expiration of the period set for completing the shortcomings and providing clarifications, the technical bids non-conforming to the requirements contained in the bidding requirements shall be rejected and the its financial bids shall be returned to the bidders without disclosing them pursuant to the principle of transparency.

The complete technical bids that meet the minimum requirements set out in the bidding requirements document shall be analysed and assessed. The Project Committee, assisted by team appointed by the Technical Bureau, shall assess and compare the remaining technical bids. The technical bid normally includes the technical, legal and the financial solutions and shall be assessed according to its sections.

**First: Technical Solution Assessment**

The technical solution assessment is divided into two main parts: preparation phase and the operation phase, i.e. the phase of service provision.

- **Preparation Phase**
  
  Hereunder the considerations on which the technical solution assessment may depend during the preparation phase:
  
  - Design quality, safety, cost efficiency and practical and innovative nature.
  - Design level and cost-estimation accuracy
  - Social and environmental impact and compliance with the environmental legislation.
- Ability to provide outcomes, reports and schedules
- Integration of design, preparation, maintenance and operation according to a clear program.
- Quality management, safety and security systems suggested by bidders.

- **Operation Phase**

  The technical solution assessment in the operation phase shall depend on the following:
  - How the suggested performance targets and measurement systems exceed the minimum specifications and the operation methodology.
  - Quality of the services suggested to be provided to the end users and their conformity to criteria and performance indicators set in the bidding requirements document.
  - How the philosophy of asset management and maintenance supports the project objectives.
  - Quality of the suggested management structure and the personnel system.
  - Quality of the safety plans, including the use of the known and proven techniques.
  - Integration of the PPP project with the existing services.
  - Quality of the management system suggested by bidders.
  - Compliance with the environmental legislations.
  - Adherence to the follow-up and reporting requirements of the Federal Entity and the Technical Bureau.
  - Easiness of the project operation without complications or with the least possible complications that may be overcome easily.
  - Quality of the suggested installations and facilities, and their conformity to the specifications set out in the bidding requirements document, and the availability of sufficient measures for maintaining them and ensuring their continuity.

**Second: Legal Solution Assessment**

The legal solution assessment shall depend on the strength and stability of the special purpose vehicle or the “project company” suggested by the bidders. This
matter is reflected in the structure suggested by bidders for that company, the incorporation agreements between them, the level of obligation and undertakings of each alliance member and each member contribution in the equities.

The legal solution assessment also focuses on the suggested amendments to the PPP contract draft and the the project company bylaw (if drafted by the Project Committee) and the resulting increase in risks and the method of their distribution.

Third: Financial Solution Assessment

The financial solution assessment is the most complicated one because it requires a complete understanding of the project costs throughout its period and the relevant alliance’s structure and financing. Hereunder the considerations that the financial solution assessment shall depend thereon:

- The project total cost in terms of the limits on cost affordability.
- Reality of operational and capital expenditure, including the assessment of whether the quality management system costs are calculated in the financial model or not.
- Cost-effectiveness of the services, installations and facilities to be provided through the project.
- Strength of the financial solution, including its sensitivity to changes in operation and maintenance costs, currency rate fluctuations, inflation rate, interest rate and cash flow forms.
- Strength of the financing structure.
- Level and nature of equities in the financing structure.
- Level of compliance showed by the debt providers and equity owners as well as the terms and conditions associated with providing this financing.
- Level of incurred risks and the extent of deviation from the requirements detailed in the bidding requirements document.
- Cost, level and nature of the suggested guarantee (insurance) coverage.
- Nature and significance of risks, their occurrence possibility and their distribution method.
The Project Committee shall give points based on the relative weights previously identified for each section, and then the technical assessment score shall be calculated. Based on the followed assessment method, the Project Committee shall identify the accepted technical bids.

b. Financial Bid Assessment

The Project Committee shall open the financial bids associated to the accepted technical bids. The financial bid importance is limited to the price that shows in general the project cost to be incurred by the government. The price shall be audited in light of the submitted financial solution and its compliance with the submitted financial model shall be ensured.

7.9 Bidder Classification

The Project Committee shall open the financial bids related to the accepted technical bids, and then submits a report to Ministry that, in turn, submits it to the Financial and Economic Committee. In that report, the Project Committee shall classify the bidders according to the technical and financial assessments, and shall attach thereto its recommendations regarding the detailed bid.

The Project Committee shall include in that report a table detailing the scores of each bidder in the technical, legal and financial solutions and the score of the financial bid.

7.10 Contract Awarding

The contract shall be awarded to the bidder submitting the best bid according the assessment made by the Project Committee and under the Financial and Economic Committee approval. The Project Committee shall notify all bidders of the selection process result.

If the financial and economic committee decides not to make any negotiations with the best bidder or the best two bidders, the contract shall be awarded to the best bidder based on the assessment result. The selection process results shall be serviced to all assessed bidders.
7.11 Negotiation with the best bidder

The Project Committee may negotiate with the best bidder or, if the bids are close in scores, with the best two bidders to enhance the bid from the technical and/or financial aspects. For this purpose, it may follow a set of transparent, public and fair procedures.

The success negotiations shall be concluded with contract awarding, selection phase completion, and commencement of the joint project implementation.

Negotiation Methodology

The negotiation process shall be preceded with preparatory steps, where the Project Committee shall prepare an agenda and schedule for the negotiation commencement and conclusion. Such period shall be included in the bid validity period and the negotiation goal shall be to enhance the contract conditions, the technical bid and/or the project cost based on some data available to the committee after viewing the content of all submitted bids.

7.12 Negotiation Results and PPP Contract Signing

If the negotiations with the best bidder or the best two bidders result in enhancing the bid from the technical and/or the financial aspects, the Project Committee shall submit to the Ministry a detailed report on the negotiation process and the final clauses and conditions agreed upon, and recommend approving the contract signing. The Ministry shall submit this report to the Financial and Economic Committee for review and approval.

7.13 Establishment of the Project Company (Special Purpose Vehicle “SPV”)

The private partner shall (if the project nature requires so) establish the project company according to the relevant laws applied in the state.

The board of directors shall be selected by the general assembly. The concerned Federal Entity shall be represented throughout the period of its contribution in the company by at least one director to be appointed by the Cabinet.
The winning bidder shall be responsible for establishing a company dedicated to implement the project only. This company shall have a legal personality separate from the parent company personality. The advantages of establishing such company include obtaining financing from potential funders for the project because there are no potential risks or burdens threatening its future work as it is a new company with a legal personality separate from the personality of the parent company or partners.

For promoting the private partner guarantees towards the Federal Entity, the private partner and the project company shall be obliged to provide sufficient guarantees for implementing the project as agreed upon with the private partner.
Chapter Eight
Project Life Cycle – Phase IV

Guarantees in Joint projects
8. Guarantees in Joint projects

The guarantees, undertakings and obligations agreed upon by parties for executing the joint project are important matters and shall be set out in the PPP contract. The guarantees are provided by various parties such as the project company, the private partner and/or the Federal Entity. The PPP contract shall identify the mutual guarantees between the Federal Entity and the project company and/or the private partner.

8.1 Guarantees Provided by the Federal Entity To The Private Partner and/or The Project Company

The Federal Entity may, in coordination with the Ministry and according to the applicable legislations in the state, allow the private partner to contract with banking institutions for funding the project works and activities. In such case, the private partner shall be solely responsible for all liabilities arising from that procedures.

8.2 Types of guarantees provided by the Federal Entity

The guarantee undertakings may be an integral part of the PPP contract provisions, and may be in various forms as follows:

- **Service use guarantee (or revenue guarantee)**

  This guarantee is a common guarantee in the PPP contracts used in the transportation sector. Under this guarantee, the state guarantees to the project company providing a minimum service use such as the passage of a specific number of cars on a daily basis in case of establishing a Toll Road, or guarantees a minimum daily revenues. If the daily revenues are less than the amount agreed upon, the state shall guarantee paying the difference. The direct beneficiary from this guarantee is the project company and not its creditors. If the company costs are not managed properly, the project company is likely to fail to pay its debts to the creditors.

- **Guarantee of minimum service fees**

  Under this guarantee, the state guarantees to the private partner paying a minimum service fees that it had committed whatever the performance of the project company is. The project company lenders usually make sure that this guarantee is provided to ensure obtaining their debt or part thereof, even if the
project company performance is weak or if the PPP contract is terminated for any reason whatsoever.

- **Guarantee of Law and Regulation Amendment**

  The private partner usually requests, especially in the states with weak regulatory framework, to provide this type of guarantee. The state provides the protection from any future regulatory policy, provided that the contract shall not be unilaterally changeable.

### 8.3 Guarantee Impact on Private Sector

**When the government provides the guarantees, the following matters shall be taken into consideration:**

- The guarantee provision may result in redistributing risks between the public and private sectors in such a way that adversely affects the performance incentives of the private sector.
- The state policy shall be clear in respect of the guarantee provision to avoid giving an impression that the state will give such guarantees in all joint projects, making negotiation with investors in the future partnership contracts more difficult.

The adverse effects resulting from the guarantees that may be provided by the state/ the federal entities shall be mitigated through allowing the private sector to assume part of the risks without guaranteeing thereof, or through providing guarantees for specific matters only.

### 8.4 Guarantee Provision limitation

The guarantee will be more effective in achieving its purposes if it is limited in terms of scope and time because the need for guarantees changes over time. The PPP program may need broader guarantees in its early phases, but with program maturity, the need for guarantees may decrease or its scope becomes narrower.

At the project level, the need for guarantees is not constant in all project phases. Thus, the Project Committee shall develop a program for guarantee provision, in which it identifies the purpose of guarantee provision, method of provision, the decision-making mechanism, and the total value cap of guarantees. This shall be
carried out in continuous coordination with the Ministry to develop and review such guarantees.

8.5 Guarantees Provided by the Private Partner

1. Reasons for Guarantee Provision
When discussing the guarantees in the joint projects, the focus shall be on the guarantees provided to the private partner and the project creditors being the joint project funders. On the other hand, the public sector may be in need of a performance guarantee because the project company establishment keeps the private partner winning the project due to its experience away from any risks. Accordingly, the private partner losses, in case of project failure, shall be limited to the extent it has obligated when establishing the project company. The public sector may request, in some cases, the private partner to assume all or part of the project company obligations set out in the PPP contract.

2. Performance Bond
Performance bond is a security provided by the private partner to public sector, where it commits to execute all obligations and responsibilities of the project company as per the performance criteria set out in the PPP contract. This security usually relates to the project company development and implementation of the project within the identified term and cost.
Chapter Nine
Project Life Cycle – Phase V

Joint Project Monitoring and Follow Up
9-Joint Project Monitoring and Follow up

9.1 General
The Federal Entity shall monitor the joint project implementation in all respects. The Competent Authority in each Federal Entity shall appoint a representative to supervise and monitor the joint project implementation. The Competent Authority shall submit, through the Ministry, periodic reports on the project progress to the Financial and Economic Committee. The frequency of such reports shall be identified for each project separately.

In addition to its tasks set out above in this manual, the Technical Bureau shall do the following:

1. Following up the parties’ compliance with the conditions contained in the PPP contract. For this purpose, it may request the Federal Entity and/or the project company to provide information and reports on the PPP contract implementation.

2. Expressing opinion and providing comments regarding the PPP contract implementation in light of the available information and reports to the relevant Federal Entity and the Cabinet, when necessary.

3. Preparing annual reports for the Cabinet about the joint projects program and submitting suggestions for developing and promoting the partnership between the public and private sectors in general.

4. Hiring specialist experts, consultants and local and international auditing offices when carrying out any of the tasks assigned to it.

5. Training the federal government employees and developing their abilities to enable them to study and keep up with the PPP projects effectively.

9.2 Federal Entity Role
The responsibility for providing the services to the society members in the joint projects and ensuring their continuity shall be assumed mainly by Federal Entity, because the project company provides the services in the name of the Federal Entity. If the provided services do not meet the criteria required in the contract in terms of quantity, cost or quality, this matter may lead to criticising the public sector and accusing it of collusion with the project company or negligence in managing the public money. Thus, the Federal Entity shall follow up the PPP contract implementation accurately to ensure applying its provisions and appendices strictly. Therefore, it is necessary to establish a clear
institutional structure to follow up and supervise the contract implementation, provided that this structure shall be prepared during the offering and awarding phase to ensure commencing the contract implementation immediately after approving it without any delay.

The responsibility for monitoring the PPP project implementation shall be assumed by the Federal Entity. The contracting entity, whether the state or any of its institutions, shall manage the PPP contract and ensure that the project company performs its obligations under the PPP contract because this contract governs the relationship between the Federal Entity and the project company till its expiration.

9.3 PPP Project Monitoring
The PPP projects shall be monitored on two phases: Preparation phase and operation phase.

1. Preparation Phase

This phase shall start as of the cabinet approval on the PPP contract till completing the project construction, establishment, development, restoration and rehabilitation, preparation and/or maintenance as set out in the PPP contract.

The Federal Entity shall appoint an independent certifier to assist it in monitoring the joint project implementation during this foundational phase. The independent certifier shall be appointed in coordination with the project company under the provisions contained in the PPP contract or any other contract signed later with the project company. The independent certifier shall monitor the project and submit reports in a fair, impartial and effective way. The independent certifier role shall be of pure technical nature. So, the Federal Entity shall follow up the other legal, financial and incidental matters.

The independent certifier duties shall include the following:

- Reviewing and monitoring works and ensuring that they are in conformity with the agreed upon plans and designs.
- Issuing monthly reports and completion certificates after carrying out the necessary tests.
• Identifying delays and defects that require actions by the government to apply the contract conditions.
• Identifying whether the work or service costs are within the reasonable limits and as agreed upon under the PPP contract or not.
• Reassuring the public sector about the project good progress.
• Assuming the mediator role in settling disputes arising between the project company, the Federal Entity and/or any funder.
• Making sure that the project company complies with its contractual obligations in respect of this phase.

In addition to appointing the independent certifier, the mechanism of monitoring the project implementation by the Federal Entity during this phase shall be made through: Steering Committee and Project Management Office.

a. **Steering Committee**
The Federal Entity shall, immediately after approving the PPP contract by the cabinet, form a steering committee to be headed by one of the Federal Entity representatives and consists of representatives from the Technical Bureau and the Ministry. Steering Committee shall meet periodically to review the monitoring reports submitted by Project Management Office and to give necessary directions to it. Steering Committee shall submit periodic reports directly to the Federal entity Senior management and to the Financial and Economic Committee through the Ministry.

b. **Project Management Office**
The Federal Entity shall, immediately after approving the PPP contract by the Cabinet, appoint an office for managing the project as appropriate. If the required experiences are not available at the Federal Entity, it may hire experts from the private sector. The office shall consist of the required experts and consultants, where majority shall be technical consultants, in addition to a legal consultant and a financial consultant according to the project nature. It shall be noted that the consultants to be hired in this phase shall differ than those who have been contracted therewith in the preparation phase for selecting the private partner. Therefore, a sufficient budget shall be allocated to the Federal Entity to establish this office. A
director/head shall be appointed for this office, whose powers shall be accurately identified.

Project Management Office shall be the contact point between the Steering Committee and the project company. Its duties shall be as follows:

- Receiving and evaluating reports relating to implementation and works progress, which are prepared by the project company as set out in the PPP contract.
- Receiving and evaluating reports and completion certificates issued by the independent certifier.
- Preparing periodic monitoring reports and submitting them to the Steering Committee. These reports explain how the project company complies with the schedule of executing the works set out in the contract, as well as suggestions relating to the emergency matters to be addressed.

The preparation phase shall end when issuing all completion certificates by the independent certifier and passing all initial tests and approving them by the Federal Entity and the project company. Accordingly, it shall be ensured that the project company has completed all its obligations under the contract for this phase. After that, the project shall move to the operation phase.

2. Operation Phase

The operation phase shall start from the date of commencing operations and providing service till their completion as set out in the PPP contract.

During this phase, the mechanism of the project implementation monitoring by the Federal Entity shall be limited to establishing a unit for managing the project company without the need to the Steering Committee, as this phase is naturally a routine phase.

Prior to commencing this phase, the Federal Entity shall appoint an independent certifier other than the independent certifier appointed in the preparation phase, whose role shall be limited to the technical matters, including:

- Monitoring the project company compliance with the standards identified for the performance and maintenance.
• Identifying delays and defects that require actions by the government to apply the contract conditions.
• Preparing a systemized monitoring reports

Prior to commencing this phase, the Federal Entity may appoint an office for managing the project (when necessary) other than the office monitoring the project in the preparation phase due to the difference in the competencies and expertise required in both phases. Such office shall:

• Monitor the operations carried out by the project company in terms of outputs as well as levels and quality of the required services in light of the agreed performance measurement standards.
• Monitor the suggestions relating to the plan of addressing the project company violation of its obligations and imposing penalties and fines.
• Manage the settlement of the existing disputes and the change orders.
• In general, ensure that the project company processes are in conformity with the conditions set out in the PPP contract.
• Provide the project assets and hand over them upon the contract expiration.
• Prepare periodic reports on the monitoring operations for the first two years and annual reports for the later years. Copy of these reports shall be sent to the Federal Entity to take the appropriate decision regarding them, and also to the Technical Bureau because it is in charge of following up the PPP projects in the federal government.

If the project company violates its obligations, the Federal Entity shall, at any time, check, audit, monitor and test the provided services to ensure their conformity with the contract terms. In case of repeating the violation or if there are many complaints relating to the provided service level, the Federal Entity may submit the matter and the suggested recommendations to the cabinet.

9.4 The Technical Bureau Role in Following Up the Joint Projects

The Technical Bureau role is limited in respect of the direct monitoring. Its role shall be limited to “follow up” the projects through the completion reports and information about the project progress. The Technical Bureau shall review and evaluate the reports in terms of the parties’ compliance with the PPP contract.
based on the information, documents and statements submitted by the Federal Entity and/or the project company in its reports. In addition, it shall evaluate the performance of the joint projects and prepare periodic reports on them to draw the learned lessons, focusing on the parties’ compliance with the contract clauses and the effect of these projects on the public treasury and the society members.

The Technical Bureau follow-up of the PPP projects shall not make it, in any way, responsible for the PPP contract implementation because this responsibility shall be assumed solely by the relevant Federal Entity. Thus, the Technical Bureau representation in the Steering Committee is only to enable it to carry out this evaluative role.

The Technical Bureau shall receive from the Steering Committee, as set out above, the monitoring reports relating to the PPP project on a periodic and regular basis during the preparation phase and the first two years of the operation phase, and on an annual basis thereafter. The Technical Bureau shall be entitled to request any information, documents or reports from the project company. In light of such reports and information, it shall monitor the PPP project implementation. It may express its opinion and provide notes to the concerned Federal Entity and the cabinet, when necessary. The Technical Bureau shall prepare annual reports for the Cabinet on the joint project program and the status of the implemented PPP projects.

The Technical Bureau shall follow up the PPP projects indirectly through submitting the Cabinet suggestions and recommendations for developing and motivating the PPP to, including suggestions to enact legislations promoting the PPP, and training all the federal government employees concerned with the PPP contracts by organizing workshops and conferences for developing their abilities to be able to understand and keep up with the PPP projects and building a qualified staff.

9.5 Contract Term Expiration

Introduction

The nature of the PPP contracts shall be governed by specific time periods, whether they are design/building/operation contracts; design, building and operation contracts; or any other form of the PPP contracts. To ensure achieving
the public interest, the Federal Entity shall, before the contract expiration date, take the required actions to ensure continuity of providing service to society members.

**Best Practices and Suggested Actions**

Before a sufficient period of the PPP contract expiration, the Federal Entity shall consider and evaluate all available options and choose the best one in a manner achieving the public interest in order to ensure continuity of the services provided under the PPP project with the private sector. The following are best practices and actions that may be followed:

a. Extending the PPP contract with the same private partner.

b. Assuming the responsibility for the service provision by the Federal Entity based on the studying and evaluating the human resources and financial solvency of the entity to ensure the service continuity with the same quality and cost.

c. Awarding the PPP contract to a new partner.

**9.6 Facing Obstacles in Project**

**Introduction**

In the event of facing obstacles in project for any reasons relating to the private partner incompetency and lack of financial solvency, the Federal Entity shall take the required corrective actions, taking into consideration the agreements reached in the PPP contract. In the event of facing obstacles in project for reasons relating to force majeure or matters beyond the control of the private partner, the Federal Entity and the private partner shall discuss the matter to take the necessary actions for the public interest without causing any damages to any of the contract parties.

**Best Practices and Suggested Actions**

In the event of facing obstacles in project for any reasons relating to the private partner incompetency and lack of financial solvency, it is recommended to take any of the following suggestions or recommendations to achieve the public interest and ensure the project continuity. The following are the best practices and actions that may be followed:
a. Contracting with a new private partner.
b. Assuming the responsibility for the service provision by the Federal Entity based on the studying and evaluating the human resources and financial solvency of the entity.
c. Cancelling the project.

9.7 Violation of the agreed obligations

Without prejudice to the Federal Entity right of compensation and imposing the penalties under the PPP contract, the Federal Entity may, by itself or by any other party it chooses, implement the PPP contract if the private partner commits material or serious violations or becomes unable to achieve the required quality levels under the PPP contract, after notifying the partner of its defects and defaults in performance and its failure to correct its situation within the period identified in the notice.

9.6 Dispute Settlement

The contractual disputes are a common matter in the PPP contracts for many reasons, including:

- The PPP contracts are long-term contracts. Therefore, disputes may arise in unexpected conditions.
- The joint projects are complicated in their nature.

The relationship between the relevant parties shall be managed effectively in the joint project to facilitate the dispute settlement in the future. Settling the dispute inappropriately may cause damage to this relationship, a matter that may adversely affects the progress of the whole project. So, it is necessary to identify a mechanism for settling disputes arising the PPP contract. The experienced legal consultants support must be sought in this matter.

Methods of Dispute Settlement: Negotiation, Mediation and Local Arbitration

The agreed mechanism for dispute settlement is an important element in identifying the PPP contracts risks by the private partner. Therefore, it is necessary to build the relevant private partners’ confidence that there is a fair system for dispute settlement in order to urge them to participate in these projects. Preferably, the disputes shall be settled by resorting to any of the available dispute settlement mechanisms which are in compliance with the
international practices without resorting to legal proceedings that are long and costly in nature.

**Model mechanisms of Dispute Settlement are:**

- **a. National litigation Method (litigation before the relevant courts inside the state)**
- **b. Arbitration (inside the state)**

This mechanism is more similar to the judicial proceedings as a third party render a judgment in the dispute referred to it. The importance of the arbitration in the PPP contracts lies in the fact that it keeps the rights of the state and the investor at the same time.

As we indicated above, the project bid requirements document states that the PPP contract shall be referred to the Cabinet for approval. Thus, when the contract is awarded to and signed by the winning investor, no other actions shall taken regarding the arbitration clause that shall be valid and binding on its parties.

- **c. Mediation**

  Mediation is a mechanism for solving the legal disputes in an amicable way between two parties with the assistance of an impartial third person, who shall direct and facilitate the negotiations and assist in settling the dispute by providing acceptable and reasonable solutions. If the parties agree on a solution, the mediator shall dedicate that solution by organizing a binding contract.

- **d. Expert Report**

  This mechanism is often used for specific technical or financial matters or to give a temporary decision, and thus the litigation or arbitration may be a challenged.
Annexes
### Annex (1) Types of Partnership contracts

<table>
<thead>
<tr>
<th>Type</th>
<th>Operation and maintenance</th>
<th>Financing</th>
<th>Title upon contract expiration</th>
<th>Contract period (years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service contract, management or operation; or management and operation</td>
<td>Management Contract</td>
<td>Service Outsourcing</td>
<td>Private Sector</td>
<td>Public Sector</td>
</tr>
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<td>Finance Leasing</td>
<td>Lease Contract</td>
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<td>Private Sector</td>
<td>Public Sector</td>
</tr>
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<td>Build, Finance Leasing and Own</td>
<td>Build, Lease and Own</td>
<td>BLO</td>
<td>Private Sector</td>
<td>Private Sector</td>
</tr>
<tr>
<td>Build, Lease and Transfer</td>
<td>Build, Lease and Transfer</td>
<td>BLT</td>
<td>Private Sector</td>
<td>Private Sector</td>
</tr>
<tr>
<td>Build, transfer and Operate</td>
<td>Build, transfer and Operate</td>
<td>BTO</td>
<td>Private Sector</td>
<td>Private Sector</td>
</tr>
<tr>
<td>Build, Operate and Transfer OR Build, Own and Transfer</td>
<td>Build, Operate and Transfer OR Build, Own and Transfer</td>
<td>BOT</td>
<td>Private Sector</td>
<td>Private Sector</td>
</tr>
<tr>
<td>Build, Own and Operate</td>
<td>Build Own and Operate</td>
<td>BOO</td>
<td>Private Sector</td>
<td>Private Sector</td>
</tr>
<tr>
<td>Build, Own Operate and Transfer</td>
<td>Build, Own Operate and Transfer</td>
<td>BOOT</td>
<td>Private Sector</td>
<td>Private Sector</td>
</tr>
<tr>
<td>Build, Rehabilitate, Operate and Transfer</td>
<td>Build, Rehabilitate Operate and Transfer</td>
<td>BROT</td>
<td>Private Sector</td>
<td>Private Sector</td>
</tr>
<tr>
<td>Build, Rent and Transfer</td>
<td>Build, Rent and Transfer</td>
<td>BRT</td>
<td>Private Sector</td>
<td>Private Sector</td>
</tr>
<tr>
<td>Design, Build Finance and</td>
<td>Design, Build Finance and</td>
<td>DBFO</td>
<td>Private Sector</td>
<td>Public Sector</td>
</tr>
<tr>
<td>Type</td>
<td>Operation and maintenance</td>
<td>Financing</td>
<td>Title upon contract expiration</td>
<td>Contract period (years)</td>
</tr>
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<td>------</td>
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<td>-------------------------------</td>
<td>------------------------</td>
</tr>
<tr>
<td>Operate</td>
<td>Operate</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Design, Construct, Manage and Finance</td>
<td>Design, Construct, Manage and Finance</td>
<td>DCMF</td>
<td>Private Sector</td>
<td>Private Sector</td>
</tr>
<tr>
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<td>Rehabilitate, Lease and Transfer</td>
<td>RLT</td>
<td>Private Sector</td>
<td>Private Sector</td>
</tr>
<tr>
<td>Rehabilitate, Operate and Own Rehabilitate, Own and Transfer</td>
<td>Rehabilitate, Operate/Own and Transfer</td>
<td>ROT</td>
<td>Private Sector</td>
<td>Private Sector</td>
</tr>
<tr>
<td>Rehabilitate Own and Operate</td>
<td>Rehabilitate Own and Operate</td>
<td></td>
<td>Private Sector</td>
<td>Private Sector</td>
</tr>
<tr>
<td>Modernize, Own Operate and Transfer</td>
<td>Modernize, Own Operate and Transfer</td>
<td>ROO</td>
<td>Private Sector</td>
<td>Private Sector</td>
</tr>
<tr>
<td>Concession</td>
<td>Concession</td>
<td>MOT</td>
<td>Private Sector</td>
<td>Private Sector</td>
</tr>
<tr>
<td>Build, Operate and Renewal of Concession</td>
<td>Build, Operate and Renewal of Concession</td>
<td></td>
<td>Private Sector</td>
<td>Private Sector</td>
</tr>
<tr>
<td>Partial Privatization</td>
<td>Full Privatization</td>
<td>BOR</td>
<td>Private Sector</td>
<td>Private Sector</td>
</tr>
<tr>
<td>Full Privatization</td>
<td>Partial Privatization</td>
<td></td>
<td>Private Sector</td>
<td>Private Sector</td>
</tr>
</tbody>
</table>
• It is necessary to bear several criteria and rules into mind while selecting the most appropriate types and forms of PPP contracts for the project implementation. The Technical Bureau shall submit a recommendation to the financial and economic committee that includes, whenever possible, the best two forms of PPP contracts under which the PPP contract in question shall be executed. Furthermore, it is necessary to compare both forms and identify the positives and negatives, risks and opportunities of each form.
Annex (2) Risk Matrix

Contents:

1. Introduction

2. Determination of project potential risks

3. Determination of the consequences resulting from each risk (Measuring them in terms of quantity and expressing them in numbers)

4. Estimation of each risk possibility

5. Calculation of each risk costs

6. Identification of the entity responsible to deal with such risks

7. Development of risk matrix

8. Identification of the strategies aiming at reducing risks and mitigating their effects
1- Introduction

The following is a review of the standard methodology used to develop risk matrix that will enable the federal entities sponsoring the PPP projects to evaluate, distribute and manage the major risks involved in the proposed project.

Risk analysis is a fundamental factor and essential component in evaluating the PPP project comprehensive feasibility in the applied study. In addition, the determination and evaluation of risks are a paramount part in defining the value for money.

This matrix will help the federal entities sponsoring the PPP to complete three basic tasks:

- Development of matrix to be used as a guide while preparing a feasibility study for a proposed project.
- Application of a standard risk assessment methodology
- Assistance in developing an official methodological strategy for risk management before negotiating with the private partner to rationalize the process of risk distribution.

Risk matrix is always developed or prepared to illustrate the following items:

a- Description of the risks involving a major threat
b- Possibilities of each separate risk
c- Economic effect
d- The options available to reduce risks and mitigate their consequences
e- Distribution of risks/distribution of the responsibilities of dealing with risks
f- Determination of the factors that may affect service in terms of its demand, occurrence of human or technical defects or any other organizational obstacles.

It is necessary to review and consider the risks of each project separately because the risk matrix and the risk distribution method differ from project to another.

In general, risks are assessed through seven steps:

The first step: Identification of the risks involved in the project
The second step: Determination of the consequences resulting from such risks
The third step: Estimation of the each risk possibility
The fourth step: Calculation of each risk costs
The fifth step: Identification of the entity responsible to deal with such risks
The sixth step: Development of risk matrix
The seventh step: Identification of the strategies aiming at reducing risks and mitigating their effects.

2- **Determination of Project Potential Risks:**
The major risks of each project must be determined by the following:

1- Organizing workshops and brainstorming sessions or forming specialized teams so as to obtain valuable inputs that help to identify the project-related risks. The list of participants in such workshops and session may include:
   a- Members of the project management team
   b- The specialized parties having experience in similar projects
   c- External consultants/ from independent authorities

2- Defining the categories of project-related risks that are classified in a standard way codified in a complete risk matrix that contains most of the risks encountered in the PPP projects.

3- Defining the important sub-risks in each major category

3- **Determination of consequences resulting from each risk (Measuring them in terms of quantity and expressing them in figures)**
The effects resulting from risks are characterized by three distinguished factors as follows:

**Risk Effect:** The effect that the risk causes to the project may come in the form of cost increase, time delay or alike.

**Risk Time:** The effect resulting from the risk may occur in different times during the project period. For example, the risks related to constructions may appear in early stages of the project.
**Level of severity:** It is represented in the size of effect on the project. The cost increase may seem high, moderate or low. In addition, it is necessary to define percentage of the size of effect resulting from risks. Capital costs may encounter risks that represent in exceeding the limit of the originally planned value by 20%. Based on the determined effects, the next steps are taken. Such steps are represented in defining the cash value of such effects or estimating their economic effect on the project, which in turn helps to quantify each risk and express it in figures. To calculate each risk cost, it is important to determine amount of the effects resulting from the risks through expressing them in numbers.

Determination of risk elements and their above-mentioned effects require carrying out an intensive research in this regard. It is recommended to organize separate workshops to discuss the effects of risks after organizing the workshop of determining the risks themselves.

**4- Estimation of the each risk possibility**

It is not easy to identify the possibility of risks because possibilities are often based on estimations. Thus, such estimations must be revised whenever there is new information about the risks.

The following are the methods used to identify the possibility of risks:

1- Verify whether there is similar projects and identify the risks encountered in such project.

2- If there is no information about similar projects, the best available estimates will be used. Such estimates are derived from the experiences of the relevant parties or members involved in the project.

3- Tools, methods and software may be used to identify the possibility of risks. In this regard, it is recommended to hire a specialized consultant.

4- The possibility of some risks may be classified as low, but their consequences or effects (if occurred) will be serious or high. So, It is important in this phase to assess all risks, including the risks that their possibilities are low.
5- **Calculation of each risk costs**

Each risk cost shall be assessed individually based on several grounds. In order to calculate the cost of each risk, it is necessary to identify its possibility and level of severity (if occurred) as detailed hereinabove.

6- **Identification of the entity responsible for dealing with risks:**

It is necessary to identify the entity that shall assume the responsibility for each determined risk. The golden rule in this regard is to assign risk to the party that can manage it very well, i.e. the party that is in the optimum position enabling it to handle risks in the best manner. Thus, risks may be assigned either to the Federal Entity sponsoring the project or to the private partner, or both parties jointly bear the responsibility.

7- **Development of risk matrix**

The table below shows a guiding form regarding matrix of the defined and determined risks, their consequences and costs and the entity responsible for their management:

<table>
<thead>
<tr>
<th>Risk type/category</th>
<th>Risk sub-category</th>
<th>Description</th>
<th>Effect</th>
<th>Consequences</th>
<th>possibility of risks</th>
<th>Cost of risk</th>
<th>Entity responsible for risk management</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. construction related risks</td>
<td>Exceeding the set costs</td>
<td>Increase of the constructions costs estimated in the project's main studies</td>
<td>Additional costs</td>
<td>xx%</td>
<td>xx%</td>
<td>AED</td>
<td>The Private partner</td>
</tr>
<tr>
<td>2. Non-availability related risks</td>
<td>Exceeding the time set for completion</td>
<td>Delay means incurring additional costs amounting to xx%</td>
<td>Incurring additional costs amounting to xx%</td>
<td>xx%</td>
<td>xx%</td>
<td>AE D</td>
<td>The Private partner</td>
</tr>
</tbody>
</table>
8. Identification of the strategies aiming to reducing risks and mitigating their consequences

The table below contains a distribution matrix of the standard risks that may face the PPPP projects. In general, risks vary from one project to another, so, it is necessary to develop a risk matrix for each project separately.

<table>
<thead>
<tr>
<th>Categories</th>
<th>Description</th>
<th>Procedures of consequences alleviation</th>
<th>The responsible entity</th>
</tr>
</thead>
</table>
| Risk related to the failure to provide services in the manner agreed upon under the contract | The services provided by the private sector may not meet the required conditions or conform to the specifications issued by the governmental authority responsible for providing the service | • Putting clear and accurate outputs of the specifications.  
• Monitoring the Performance  
• Imposing penal deductions from the payments released per unit/ for each unit separately | The private partner                                                             |
| Risks related to the project work completion                               | The completion of works required under the project may be: 1- Delayed, so that it is not be possible to start providing services according to the planned schedule. 2- Delayed, unless greater costs are incurred to fulfil the date scheduled to start providing services. 3- Delayed because variations | • Monitoring the Performance  
• Providing special insurance coverage (against the delay in the project execution)  
• Appointing an independent and specialized entity to approve the project completion  
• Liquidating damage, construction warranties and | The private partner – unless delay is attributed to events of force majeure or the Federal Entity sponsoring the project. |
<table>
<thead>
<tr>
<th>Categories</th>
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<td>other appropriate warranties provided by the private partner as incentives for project completion, unless the Federal Entity sponsoring the project is responsible for the delayed in completion  • Cases of rescue and providing help.</td>
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<td>Risks related to exceeding the scheduled costs</td>
<td>The actual costs of the project during phases of design and construction may exceed the expected costs of the project as per its feasibility studies</td>
<td>• Drafting construction contracts with fixed prices  • Developing conditions relating to emergency plans  • Providing alternate credit facilities / liabilities pertaining to rights of additional shares paid in advance and expected in the financial model of basic cases</td>
<td>The private partner</td>
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<td>Design-related risks</td>
<td>The design developed by the private partner may be inconsistent with the specifications of project outputs</td>
<td>• Preparing clear specifications for the project outputs  • Verifying design  • Defining the responsibilities</td>
<td>The private partner</td>
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| Environmental risks     | Possibility to afford consequences of the losses caused by environmental damage arising from: 1- Works of construction or operation (kindly refer to the clause of operational risks) during the project period; or 2- The works performed by the Federal Entity or third party before transferring the responsibility for the project to this private partner. The | • Bidders must perform due diligence by conducting extensive studies and necessary researches about the project and conditions prevailing in worksite. This matter can be done by considering all financial, technical and contractual aspects and reading all documents, contracts, | As for Point (1): The private partner.  
As for Point (2): the sponsoring Federal Entity, but the limit of its responsibility is specified as per the considerations of value for money. |

- Consulting the responsible Federal Entity and keep it informed of work progress (provided that such consultation shall not result in the provision of outputs for specifications by such entity).
- Referring and appointing independent expert to settle the disputes promptly and effectively.
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<td>above works are not attributed to the private partner or the main partners working therewith under subcontracting agreement.</td>
<td>agreement and information provided by the Federal Entity sponsoring the project.</td>
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<td>• Conducting a survey about the project site at cost price through an independent entity appointed by the sponsoring entity.</td>
<td>• Conducting a survey about the project site at cost price through an independent entity appointed by the sponsoring entity.</td>
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<td>• Compensating for the hidden environmental pollution that occurs before the project transfer, provided that compensation shall be provided by the competent Federal Entity according to certain limits (as per considerations of value for money) and for definite period.</td>
<td>• Compensating for the hidden environmental pollution that occurs before the project transfer, provided that compensation shall be provided by the competent Federal Entity according to certain limits (as per considerations of value for money) and for definite period.</td>
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<td>• Taking the necessary corrective steps to handle the problems of environmental pollution identified before</td>
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| Risks of exchange rates                              | The fluctuations of exchange rates may affect the expected value of inputs imported to construct or operate the project | transferring the project to the private partner. The above steps shall be taken as one of the project's specified outputs.  
- Corrective works shall be controlled by independent entity | The private partner                                                                                     |
| Risks of force majeure or circumstances outside the reasonable control | Unforeseen events beyond the reasonable control of both parties may occur (Whether such events are natural or manmade), in a manner would affect the activities of project construction or operation | Providing means and tools of protection against financial losses (for example resorting to means of barter) | As for the insurable risks, they shall be included in risks of force  
As for the uninsurable risks, they are shared between both sectors. The sponsoring entity may pay a limited compensation upon project completion. |
<p>| Inflation risks                                      | Actual inflation rates may be higher                                        | Introducing amendments to the                                                                            | The sponsoring entity shall                                                               |</p>
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<td>than the expected ones. These risks become more obvious in the operational phase of the project.</td>
<td>projects that use the method of payment per units (On the basis of each unit separately) or method of charging users or beneficiaries of the services provided under the project, provided that such amendments shall be linked to indicators.</td>
<td>afford the increase risks resulting from inflation of the agreed upon rates, and what so exceeds shall be afforded by the private partner.</td>
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| Risks related to the cancellation of partnership or liquidation and dissolution of the private partner | The company may be dissolved or the private partner may be liquidated. | • Establishing a unit with specific purposes to contain the project cash flows/liquidity.  
• Providing insurance cover and warranty for the project necessary assets.  
• The restrictions of private sector regarding indebtedness and credit and finance restrictions.  
• Obligations of notification regarding the financial data and information and judicial lawsuit or dispute with creditors. | The private partner |
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| Risks of insurances | The following may occur: 1. Any risk insurable at the time of signing the project contract under agreed insurance cover may become uninsurable. 2. There is remarkable increases in the rates of insurance premiums | • The federal entities is entitled to terminate the agreement of partnership with the private sector.  
• Replacing private partner by another new one by virtue of a direct agreement.  
• Replacing private partner by another new one in the event that there is a liquidity in the market, provided that offering the project again in a new bid. | As for the first case, if the private partner is the one who causes the insurance impossible or fails to provide insurance or fails to prove that there are similar activities will not proceed without insurance (the subject matter of discussion), the private partner shall be held liable |
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<td>Risks of Interest rates</td>
<td>There are factors may affect the availability of financial credits and costs of finance</td>
<td>Providing means and tools of protection against financial losses (for example resorting to means of barter)</td>
<td>for the risk, otherwise the private partner and the sponsoring federal entity shall assume the same. As for the second case, the private partner shall be responsible for risk (unless there are reasons relating to regular complexities or reasons attributed to the sponsoring entity)</td>
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<td>Risk of latent defects</td>
<td>losses or damage may result from latent defects or deficiencies hidden in the fittings and facilities, including the project assets (kindly compare the addressing latent environmental pollution that occurs before transferring the project responsibility to the private partner – Kindly refer</td>
<td>Facilities must be, as far as possible, designed and constructed by the private partner unless the project requires handing over the currently existing facilities to the private partner. In such case bidders must perform due diligence through conducting extensive studies and</td>
<td>If the private partner (or any main partner works under subcontract) assumes the works of design and fittings, it shall bear the consequences of such risk; Otherwise, the sponsoring Federal Entity shall bear the</td>
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<td>as well to the clause of environmental risks)</td>
<td>necessary inspection of facilities so that it be possible to detect shortcomings. As for the procedures and costs pertaining to the detected shortcomings, a prior agreement may be concluded with the private partner about them. The private partner shall immediately report the detected defects.</td>
<td>same, provided that there is no insurance coverage sufficient to mitigate the consequences of such risk. If the sponsoring Federal Entity's responsibility is limited, reference shall be made then to the considerations of value for money.</td>
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| Maintenance risks | 1- The maintenance necessary for keeping assets in a proper condition for providing the required services may require higher costs than those set out in the project prospections. 2- Maintenance may be not conducted at all. | • Preparing clear specifications for the project outputs  
• Applying a system of penalties and performance monitoring  
• Preparing an operation and maintenance contract includes and satisfies all the requirements of the sponsoring Federal Entity.  
• The sponsoring Federal Entity shall preserve its right to replace the private partner.  
• Providing a special insurance | The private partner |
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<td>Risks related to supply and demand, service size or market mechanism</td>
<td>Demand for the services provided under the project may be below expectations or the desired rate (for example, absence of the need for such services, expiry or low level of their demand, market competition or the objection of clients to the services provided by the main external partners.</td>
<td>• As for the PPP projects in which the payments are made per unit, payment must be based on the availability of service (not on the basis of actual usage by the Federal Entity sponsoring the PPP project) • Applying effective plan with clear objectives to market the services in question.</td>
<td>As for the projects financed on the basis of payment per unit, the sponsoring Federal Entity shall be responsible for such risk. As for the projects financed by charging fees on the project users or beneficiaries, the private partner shall be responsible for such risks.</td>
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<td>Operation risks</td>
<td>All factors that may affect the project operation requirements, including the expected costs of operation, the required skills of operation and alike (except for force majeure), such as: 1- Labor disputes 2- Employees' capabilities and level of efficiency 3- Acts of fraud and forgery</td>
<td>• Preparing clear specifications for the project outputs • Applying the system of penalties and performance control • Preparing an operation and maintenance contract includes and satisfies all the requirements of the</td>
<td>The private partner</td>
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<td>committed by the employees.</td>
<td>sponsoring federal</td>
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<td>4- Shortcomings of the technical field</td>
<td>• The sponsoring Federal Entity shall have the right to replace the private partner.</td>
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<td>5- Environmental factors</td>
<td>• Providing special insurance coverage</td>
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<td>6- Failure to obtain the approvals required to conduct the necessary maintenance and fulfil the requirements needed in this regard.</td>
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<td>Planning risks</td>
<td>The proposed usage of project site under the terms and conditions included in the agreement of public-private partnership, specifically regarding the establishment of facilities and fittings in the project site, may conflict with the laws and regulations applied in the field of planning and usage of lands, properties or buildings (such as the requirements of cities planning and urban planning) or with any other requirements or approvals needed under the foregoing;</td>
<td>The competent Federal Entity must show all unnecessary approvals on the detailed proposal of design, building and constructions in the project regarding the large scale planning so as to identify such cases in the phase of feasibility study of the project. The above approvals include all approvals relate to the land utilization and identification of areas. The approvals must be obtained before offering the project in the bid. The private partner shall identify all cases of planning needed in the</td>
<td>As for any approval on area identification and land utilization, the Federal Entity sponsoring the project shall be held liable for the risk, unless the private partner is responsible for selecting the project site. As for all approvals on any identified planning, design, constructions and buildings, the private partner shall be held liable</td>
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As for any approval on area identification and land utilization, the Federal Entity sponsoring the project shall be held liable for the risk, unless the private partner is responsible for selecting the project site. As for all approvals on any identified planning, design, constructions and buildings, the private partner shall be held liable.
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<td>delay or failure to obtain the necessary approvals or even if such approvals are obtained, the project will be executed at a cost much higher than the original costs expected under the project plans</td>
<td>project and require the competent authorities' approval regarding the proposal of design and constructions of the project, which authorities must take all procedures and precautions and include the same in their work schedule to arrange for the obtainment of approvals from the above authorities. Taking immediate remedial actions regarding the delay of Private Sector's representative, unless the private partner is not responsible for such delay</td>
<td>for this risk.</td>
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<td>Systemic risks/risks related to practical measures</td>
<td>The following may occur: 1- The federal entities or any governmental authorities may take unexpected acts that have a severe negative effect on the expected revenues from the rights of contributing in the project or service of debts and credit, or in any way results in increasing the costs incurred by the private partner. 2- As for any unexpected discriminatory act or any act results in expropriation of public interest for example, the Federal Entity sponsoring the project shall be held liable for such risk.</td>
<td>Determine the risk of the unexpected and unconsidered behaviours and acts that have no other output in the agreement of public-private partnership and determine the risk of the behaviours that result in expropriation. Distinguish between the general acts</td>
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As for the unexpected public acts, the private
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<td>Expropriation</td>
<td>Expropriation, nationalization or privatization/ transfer to the private sector/ (collectively referred to as expropriation) of the assets acquired by the representative of private partner in the relationship of partnership with the public sector in this project. This risk intervenes with some financial risks (such as changes of tax fees)</td>
<td>and discriminatory acts that cannot be expected. As for the unexpected discriminatory acts, a special compensation shall be granted. As for the acts that result in expropriation, the project shall be ended and compensation shall be granted.</td>
<td>The private partner shall be held liable for such risk.</td>
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<td>Organizational risks</td>
<td>The necessary approval may be delayed or cannot be obtained, or even if such approval is obtained, the project will be executed at a cost much higher than the original costs expected under the project plans. (kindly compare with the method of dealing with the approvals of planning and environmental themes and review the content of risks of planning and environment in this matrix)</td>
<td>legal survey/study about the project legal aspects by the Federal Entity during feasibility study phase to identify the above mentioned approvals. The Federal Entity shall take all necessary actions by coordination and consultation with different competent governmental authorities prior to the commencement of purchase phase. The private partner must perform</td>
<td>If it is possible to obtain any approvals (unlike approvals of operational requirements of the private partner) before concluding the contract and if it was possible to transfer the same to the private partner, the Federal Entity sponsoring the project shall be held liable for such risks.</td>
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<td>Risks of facilities and equipment.</td>
<td>Project assets may not be in the agreed condition to be returned to the Federal Entity sponsoring the project upon expiration or termination of the relationship of partnership with the private partner.</td>
<td>Due diligence to identify the approvals needed to fulfil the operational requirements. Obtaining all necessary approvals before concluding the project contract. If it is permissible under the applicable laws and regulations and if so is practically possible.</td>
<td>As for the operational requirements of the private partner, the private partner shall be held liable for the same.</td>
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<td>The private partner must fulfill its obligations of maintenance and repair.</td>
<td>The private partner must provide a guarantee to the Federal Entity responsible for the project. The guarantee may be, for example, in the form of final guarantees of maintenance or deductions from the payments made on the basis of units. Imposing obligations on the private partner.</td>
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<td>Risks of inputs or resources</td>
<td>Shortage of supplies related to the project's inputs or resources (including financial credits) may occur, or there may be inability to provide the supplies needed to operate the project, including the defects related to the level of quality of the available resources.</td>
<td>Concluding supply contracts to fulfil the project requirements, such as the contracts based on direct supply for immediate payment (take and pay). Taking prompt actions of assistance only in the event of shortcomings not falling under the responsibility of the private partner.</td>
<td>The private partner, unless the inputs are obtained from the Federal Entity sponsoring the project</td>
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<td>Risks of liquidating the subcontractor's business or the failure of such subcontractor to fulfil its contractual obligations. These risks may arise in phases of construction and/or operation.</td>
<td>The main partners working in the project under subcontracts must enjoy the necessary skills, knowledge and experiences and show spirit of responsibility to properly and satisfactorily fulfil the contractual obligations assumed thereby regarding the desired level performance. Obtaining prior consent of the Federal Entity in charge of the project with regard to subcontracting with</td>
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<td>alternative main partners. The responsible Federal Entity shall perform due diligence by conducting extensive studies that include reviewing the data of first-class subcontracting partners to make sure that they can overcome the risks they encounter.</td>
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<td>Changing the applied tax fees (for example, income tax or value added take &quot;VAT&quot;) or imposing new taxes may result in reducing the expected revenues from the rights of contribution in the project.</td>
<td>If changes result from unexpected discriminatory acts or behaviors, a special compensation shall be granted then. With regard to tax increase or imposition of new taxes due to unexpected discriminatory acts or behaviours, the Federal Entity sponsoring the project shall be responsible for such risk; otherwise, it shall be the responsibility of the private partner.</td>
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<td>The following may occur: 1- The technical inputs of the activities assigned by the governmental authority to external contractors may fail to provide inputs</td>
<td>The private partner must, from time to time, update the technologies used in the project to keep pace with advances and to fulfil the project specifications and requirements.</td>
<td>The private partner</td>
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<td>that comply with the required specifications. 2- The technical inputs may not cope with the modern updates and advances in the field of technology (Risk relates to the technical obsolescence of technology or its inability to keep pace with the technical advances)</td>
<td>Apply penalties in case of the failure to comply with the specification of project outputs</td>
<td>The private partner in the project of partnership with the public sector unless the Federal Entity sponsoring the project is responsible for facilities or it is the facility itself. In the first case and even if the sponsoring Federal Entity is not responsible for facilities, the responsibility for risk shall be shared between such Federal Entity and the company or</td>
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<td>The following may occur: 1- The services needed to construct and/ or operate the project (such as water, electricity and gas) may not be available. 2- Completion may be delayed due to the delayed removal of the facilities existing in the project or changing the site of such facilities.</td>
<td>Providing back-up equipment for emergencies, such as power generators. Entering into contracts of supplies for emergencies Providing a special insurance cover (for delayed completion or insurances for service interruptions or work stoppage) The Federal Entity in charge of the project of partnership with the</td>
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<td>private partner must secure connections outside the project site. In case No.1, prompt remedial actions shall be taken to handle cases of interruptions outside the project site regarding the supply of demands (unless the private partner is responsible for such stoppage. In case No.2, prompt remedial actions shall be taken while removing the facilities or changing their sites (unless the private partner is responsible for such stoppage)</td>
<td>private partner in case of non-availability or inability to obtain insurances, provided that such action shall ensure better results in terms of value for money</td>
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