WAPPP

JULY 2025

GUIDELINES FOR SMALL-SCALE PUBLIC-PRIVATE PARTNERSHIPS

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WAPPP WOULD LIKE TO THANK THE FOLLOWING CONTRIBUTORS:

Lead Authors:
Jyoti Bisbey, Ziad-Alexandre Hayek, Roopa Nair.

Main Contributors:
Nasser Massoud, Sergei Samolis.

WAPPP Team Contributors:
Nayef Al-Haddad, Jaber Alsalah, Jean-Christophe Barth, Neil Dhot, David Dodd, Jacques Follain, Marc Frilet, Johnson Kilangi, Primah Atugonza Kyambadde, Amanda Loeffen, Fatima Zohra Rahmoun, Erik Wehl, Caroline Braga, Mpumi Mazibuko, Liliana Wairimu Njuguna.

Webinars Case Study Contributors:
Doris Chevalier, Neil Dhot, David Dodd, Varun Goyal, Amanda Loeffen, Camilo Monge, Nathaniel Munetsi, Pedro Mateus das Neves, Andreas Opelt, Alexandre Pessatte, Jekaterina Šarmavičienė, Samantha Schuber, Jelena Tadić.

Webinar Speakers:
Salman Ahmad, Abraham Akkawi, Nayef Al-Haddad, Khaled Amri, Eyüp Vural Aydın, Naresh Bana, Jean-Christophe Barth, Maya Bouregdha Chebeane, Jyoti Bisbey, Caroline Braga, Gerard Cabri, Pilar Castrosin, Doris Chevalier, Shaimerden Chikanayev, Christine D'sa, Ulan Danilbekov, Martin Finnigan, Janita Ferentinos, Jacques Follain, Marc Frilet, Steven van Garsse, Varun Goyal, Thiago Grego, Ziad-Alexandre Hayek, Dhawal Jhamb, Johnson Kilangi, Aidos Kobetov, Arun Kumar, Alexandre Leigh, Amanda Loeffen, Patrick Lucas, Kiran Mali, Nasser Massoud, Senida Mesi, Camilo Monge, Nathaniel Munetsi, Yu Namba, Prakash Seshadri Nathan, Pedro Mateus das Neves, Alexandre Pessatte, Andy Potter, Rogerio Prado, Jorge Roberts, Felix Rwang-Dung, Sergei Samolis, Jekaterina Šarmavičienė, Pierre-Hugues Schmit, Natascha Schmitt, Jan van Schoonhoven, Samantha de Castro Schuber, Mohammed Amine Sdiri, Muhammad Kaleem Sindhu, Arthur Smith, Jelena Tadić, Marios Tannousis, Raghu Dharmapuri Tirumala, Gazmir Vehbi, Amandeep Singh Virk, Abduqodir Yaqubov, Syed M. Ali Zaidi.

Copy editing and Design:
Ayesha Iftikhar, Vuyokazi Mnyengeza

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Stock Images: www.canva.com

FOREWORD

BY ZIAD-ALEXANDRE HAYEK, WAPPP PRESIDENT

When the 2030 UN Agenda for Sustainable Development was adopted in 2015, there were high expectations that private sector investment in infrastructure through PPP would substantially bridge the gap between the cost of needed infrastructure and the ability of developing country governments to finance it.

Unfortunately, those expectations have not materialized. Over the past decade, the number of completed PPP projects has remained modest in relation to actual needs, primarily due to the high cost of project preparation and the complexity of implementing best practices necessary to ensure transparency and achieve optimal social, environmental, and fiscal outcomes.

It became clear to me that for private sector investment in infrastructure to truly advance the SDGs, a fundamental shift was needed—one that would empower our PPP community, public and private, to implement not just the 300 projects recorded annually in the World Bank PPP database, but 10,000 projects each year, across all levels of government: national, sub-national, regional, local, and municipal.

In October 2023, I launched a social media challenge, inviting PPP practitioners to explore a new approach to implementing Small-Scale Public-Private Partnerships (SSPPPs). The strong interest it generated led me to propose a year-long program of open, bi-weekly discussions aimed at finding effective and efficient ways to implement SSPPPs. This approach was necessary because, although various individuals and organizations had made scattered references to SSPPPs in prior years, there were no clear guidelines on how to implement them.

WAPPP's Steering Committee decided to make this initiative WAPPP's primary focus for 2024. The program was led by Jyoti Bisbey, WAPPP Executive Committee Member, and coordinated by Roopa Nair, a WAPPP Program Associate.

Throughout 2024, 25 discussion sessions (18 webinars and 7 roundtables) were held online in English, French, and Russian. Those discussions formed the basis for the guidelines and recommendations presented in this document.

Today, WAPPP considers Small-Scale Public-Private Partnerships (SSPPPs) to be essential for the continued development of human societies, both developed and developing, especially given the increasingly burdened public sector resources. We continue to work on this topic and advocate that governments follow the guidelines presented in this document.

Ziad-Alexandre Hayek
President

ABOUT THE LEAD AUTHORS

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JYOTI BISBEY

Jyoti Bisbey is a Global Sustainable Development Finance Expert with more than 20 years of experience in leading green and resilient infrastructure finance and public-private partnerships (PPPs) in developing countries. Jyoti has been a staff member at the World Bank Group and the United Nations, and is currently an Executive Committee member of the World Association of PPP Units and PPP Professionals (WAPPP) and Climate Advisor to the International Sustainable Resilience Center (ISRC).

Jyoti has led the establishment of two global benchmarks on private investment in developing countries Certified PPP Professional (CP3P), Private Capital Mobilization (PCM), and currently serves on the Executive Advisory Committee for FAST-Infra Sustainable Infrastructure® Label, Technical lead for UNECE's PIERS screening tool for Climate Adaptation and Mitigation in infrastructure and Climate Bonds Initiative's (CBI) Resilience Taxonomy Advisory Group (RTAG). Jyoti holds an Executive Certificate from Harvard University, an MBA from George Washington University, USA, and a BA in Mathematics (Honors) from St. Stephen's College, Delhi, India.

ZIAD-ALEXANDRE HAYEK

Ziad-Alexandre Hayek has 44 years of experience in investment banking, corporate strategy, artificial intelligence, technology, public policy, and public-private partnerships. He has lived and worked in Africa, Europe, the Middle East, the US, and Latin America. In 2019, he was nominated to be President of the World Bank. He was recently a candidate for the Presidency of Lebanon. Hayek is currently President of the World Association of PPP Units & Professionals (WAPPP), Advisor to HyperCycle.ai and to the Paxon Group, and member of the Board of Trustees of USEK University. Previously he was Vice Chair of the United Nations Working Party on PPP, Secretary General of Lebanon's High Council for Privatization and PPP, CEO of Talaya Water, CEO of Lonbridge Associates, Senior Managing Director of Bear Stearns, President of Indosuez Mexico, Head of International Securitization at Citibank, and Vice President at Salomon Brothers.

Hayek has an MA in International Management from the University of Texas at Dallas. He studied business administration at the Instituto Tecnológico de Monterrey, is certified in artificial intelligence by IBM, and is registered as a CEO of a financial institution by the UK Financial Conduct Authority. He has lectured at several Lebanese universities and at Sciences Po, and has spoken at more than 150 conferences. Hayek is conversant with 11 languages.

ROOPA NAIR

Roopa Nair is a Senior Partnership Associate at the World Association of PPP Units & Professionals (WAPPP) and served as the Project Manager for its Small-Scale PPP Program. With expertise in sustainable infrastructure and finance, Roopa Nair is supporting the Infrastructure Finance Department of the World Bank. Her work on the Bank's Hybrid PPP Initiative enables governments to leverage private capital for critical public assets and services through an innovative public-private partnership model.

Prior to her work at the Bank, she led large-scale bilateral initiatives for ministries in the Government of India, focusing on climate-smart buildings, energy efficiency, and affordable housing. As a technical project manager, she drove nationwide programs in multiple sectors. Her expertise spans smart cities, net-zero energy buildings, sustainable urban strategies, Energy Service Companies (ESCO) business models, and advancing energy transitions through green finance. She has authored key publications on energy-efficient infrastructure, Hybrid PPPs, Small-scale PPPs, and green finance. Roopa holds a Master of Science in Sustainable and Green Finance from the National University of Singapore and a bachelor's in architecture from Calicut University.

EXECUTIVE SUMMARY

The WAPPP Small-Scale Public-Private Partnership (SSPPP) Guidelines provide a comprehensive and pragmatic framework to help governments and stakeholders design, develop, and implement SSPPP projects, particularly in developing countries and emerging economies, in pursuit of achieving the Sustainable Development Goals (SDGs). These projects, although limited in scale and value, can make a significant contribution to local development by enhancing access to essential services and infrastructure, particularly for underserved communities.

For the purposes of these guidelines, we consider small-scale public-private partnerships as smaller-sized infrastructure or service delivery partnerships between the public and private sectors. They are typically more community-focused than larger-scale PPPs, and hence more likely to be implemented at the municipal, regional, or subnational levels.

Recognizing that conventional PPP frameworks often focus on large, capital-intensive infrastructure projects, these guidelines aim to fill a critical gap. They tailor the SSPPP process to be simpler, more flexible, and more accessible, while still ensuring due diligence, transparency, and public value. The guidelines are underpinned by good international practices but are adapted to the unique contexts and constraints of small-scale projects.

THE BENEFITS OF SSPPPs ARE ECONOMY-WIDE AND SPAN DIVERSE STAKEHOLDERS

SSPPPs are vital in addressing local infrastructure and service gaps, particularly in sectors such as water and sanitation, public transport, solid waste management, local energy access, education, agriculture, and healthcare. These projects are especially important in rural, peri-urban, and secondary urban areas where public financing is scarce and private investment is often limited by perceived risks or lack of scale. Properly structured, SSPPPs can leverage private expertise and innovation while relieving fiscal pressure on governments.

THE GUIDELINES PROPOSE A STREAMLINED FOUR-STAGE LIFECYCLE FOR SSPPs

1. Project Identification and Screening

Focuses on early project scoping and alignment with national and local development priorities. Screening uses simplified criteria and tools to assess technical, financial, legal, and environmental feasibility. Projects are evaluated for PPP suitability, risk-sharing potential, affordability, and social impact. SSPPPs should address well-defined service delivery gaps, consider gender and inclusion issues, and involve early stakeholder consultations.

2. Project Preparation

Involves detailed design, financial structuring, and development of project feasibility studies. This includes drafting risk matrices, conducting legal appraisals, developing stakeholder engagement strategies, and creating financing plans, ensuring projects are bankable and environmentally and socially acceptable.

3. Project Structuring and Procurement

Advocates for transparent, competitive, and cost-effective processes tailored to small-scale projects. This may include standardized bidding documents, simplified evaluation criteria, and mechanisms to attract small and medium enterprises (SMEs).

4. Contract Implementation and Management

Addresses contract execution, monitoring, dispute resolution, performance management, project closure, and handover. Effective implementation is supported by clear roles and responsibilities, key performance indicators (KPIs), and robust oversight mechanisms.

RECOMMENDATIONS

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ADAPT LEGISLATIVE, INSTITUTIONAL, AND OPERATIONAL FRAMEWORKS FOR SSPPPs

Develop tailored laws, institutional setups, operational guidelines, streamlined processes, and clear governance frameworks to address the unique challenges of SSPPPs, including managing inadequate guidance, legislative complexities, capacity gaps, and bureaucratic inefficiencies, while fostering inter-agency collaboration, public trust, and political will. In particular:

National PPP laws and regulations could :

- Avoid specifying an overall minimum size for PPP projects and replace such clauses with ones that acknowledge a different treatment for Small-Scale PPPs, and which give the relevant implementing authorities leeway for implementing SSPPP programs.
- Allow municipalities to be the contracting authorities for PPP projects.
- Indicate a responsibility for national PPP units to support local contracting authorities.

General national laws and regulations could :

- Allow local authorities to contract financial and other obligations under PPP contracts if the projects and/or programs under which PPP projects are pre-approved by national financial and budget authorities.
- Allow for multi-year commitments to project contracts entered into by local authorities in the national budget.

ENSURE PROPER FOCUS IS PLACED ON MULTI-PROJECT PROGRAMS AND SCALABILITY

PPP units must not focus exclusively on developing and implementing PPP projects. They should give significant attention to developing and implementing scalable multi-project PPP programs as well.

Multi-project programs could :

- Allow for the possibility of various local authorities banding together to bundle and implement projects, which might not be feasible strictly at the municipal level.
- Standardize program contract templates, bidding documents, and evaluation criteria to enhance efficiency and consistency across project implementation in order to:
    - Help local authorities with limited PPP experience to design, tender, award, and contract for SSPPP projects, as well as
    - Make it feasible for investors to conduct due diligence using the program's data and documentation, thus reducing the scope of diligence on individual projects.

STREAMLINE PROJECT PREPARATION AND PROCUREMENT

The simplification of project preparation and procurement processes for SSPPPs is key.

Relevant decision-makers could :

- Select, on a case-by-case basis, the critical due diligence requirements in environmental and social impact assessment (ESIA). A street lighting program, for example, may not need an ESIA as its environmental impact footprint is small, and its social impact is substantial.
- Select the risk exposure profile. The participation of a Small-Scale PPP Government Fund in a project or program, for example, may significantly alter that risk profile.
- When possible, if multiple methods of public procurement exist, select the most adequate public procurement tendering process. A solar energy program could rely on the national feed-in tariff, for example, obviating the need for a full PPP tender process.
- Establish clear thresholds for approvals by relevant national or local authorities based on project scale and complexity to avoid unnecessary bureaucratic delays.

LEVERAGE TECHNOLOGY AND ARTIFICIAL INTELLIGENCE

Modern tools can be used to great effect in all phases of the SSPPP project life cycle.

PPP Units could :

- Leverage artificial intelligence in the assessment, study, design, and project tendering processes.
- Leverage communication, supervision, and monitoring technology in all aspects of project promotion. Digital tools and smart technologies enhance transparency, reduce risk, and increase project efficiency. Estonia's adoption of blockchain, e-procurement, and digital twin technologies stands out as a model of tech-enabled SSPPP governance.

BUILD DEDICATED SSPPP INSTITUTIONAL CAPACITY

Local governments will rarely possess the required expertise in PPP. This is why a very intensive capacity-building program should accompany every SSPPP program.

National PPP units and local authorities could :

- Implement capacity-building programs. These could be especially targeted at training local authorities on the use of program-specific standard documentation.
- Create dedicated multi-disciplinary SSPPP teams within existing local frameworks or leverage national and regional PPP units to provide specialized support.
- Streamline SSPPPs program processes, ensuring efficiency without unnecessary duplication or resource strain.

CREATE MARKET INCENTIVES FOR LOCAL ACTORS

Promoting the participation of local private sector partners is a crucial element for SSPPP to not only provide the intended public service but also be a catalyst for economic growth.

PPP units and relevant authorities could :

- Attract investment from local and regional small and medium enterprises (SMEs) that align with the project's goals, scale, and sector.
- Collaborate with national and local financial institutions to enhance their project finance capabilities and increase their interest in local infrastructure projects.
- Promote some projects and programs as special opportunities for larger companies to co-brand, use as corporate social responsibility (CSR) initiatives, build stronger community ties, and diversify their investment portfolios.

Governments could :

- Consider establishing a government fund to support local SME participation in SSPPPs. It is, after all, an investment in national capabilities, as SMEs can thus gain experience and grow into larger and even international companies.

DESIGN SCALABLE AND MARKET-ORIENTED FINANCING MECHANISMS

Consultations with banking and financial market experts can help design financing mechanisms that enhance SSPPP viability and attract private sector participation.

With the help of financial advisors, PPP units could :

- Utilize blended finance approaches, including viability gap funds (VGF), grants, municipal bonds, and pooled funding, while balancing government-pay and user-pay models for financial sustainability.
- Strengthen access to financing through guarantees, credit enhancements, and corporate balance sheet financing to lower risks and improve bankability.
- Promote local financing solutions, such as on-lending through local banks and community investment mechanisms, to mobilize capital at the subnational level.
- Expand the use of concessional finance and impact-driven funding models to support high-priority, socially impactful SSPPPs.

ESTABLISH EFFECTIVE CONTRACT MANAGEMENT SYSTEMS

Establishing simplified yet robust contract management procedures to oversee compliance and performance monitoring is essential, given the limited capacity for project management usually found at the local level.

PPP units could :

- Design standardized SSPPP program documentation to deal with a clear and limited set of supervision and contract management tasks.
- Leave room and flexibility for national or regional authorities with more advanced contracting capabilities to address more complex aspects, such as corrective measures, contract flexibility, force majeure, and other issues beyond the local authority's level of expertise.
- Adapt regulatory oversight to project scale, focusing on financial accountability, safety, and performance metrics.
- Implement simple risk registers to monitor risks and anticipate conflict by putting in place dispute avoidance protocols (DAPs) at the local as well as at the regional or national levels, to ensure smooth project execution.

ENHANCE LOCAL COMMUNITY PARTICIPATION

The support of local communities for local projects is essential for their success, especially for the success of more fiscally responsible user-pay projects.

National PPP units and local authorities could :

- Consult heavily with the members of local communities before designing and implementing SSPPP projects.
- Make sure that the benefits of a user-pay project are clearly understood and supported.

INTRODUCTION

1

1.1 BACKGROUND

Public-private partnerships (PPPs) are increasingly recognized as a development mechanism to deliver public infrastructure and services. PPPs foster collaboration between the public and private sectors and leverage the unique strengths of each party to tackle the pressing infrastructure needs of rapidly urbanizing populations in developed and emerging economies. From economic infrastructure development to social sector initiatives, PPPs have demonstrated their versatility in addressing diverse needs.

Traditionally, the discussion surrounding PPPs has primarily centered on large-scale projects spearheaded by national governments, encompassing extensive priority infrastructure investments. These projects require significant capital and involve long-term contracts with substantial risk-sharing between public and private entities.

While large-scale PPPs often dominate discussions on infrastructure and development, SSPPPs quietly deliver transformative impact at the community level. Investment in public infrastructure was always considered the largest and most effective means for the private sector to contribute to achieving the Sustainable Development Goals (SDGs). Yet such investment continues to be confined to a few hundred large projects annually. To fulfill the private sector's potential, tens of thousands of local-level, smaller projects need to be made available to the market for investment and operation.

Small-scale PPPs offer a scalable approach to improving infrastructure, such as water systems, schools, and healthcare facilities, ensuring tailored solutions that align with local priorities. By focusing on smaller, community-specific initiatives, SSPPPs fill gaps in service delivery and infrastructure while fostering small and medium enterprise (SME) ownership and engagement. Their smaller project size allows for quicker implementation and more visible results, making them a vital tool for addressing urgent community challenges.

The World Association of PPP Units & Professionals (WAPPP) conducted a year-long program to highlight the potential of SSPPPs in advancing the SDGs. Through more than 25 discussion sessions with diverse stakeholders, as well as a series of articles and case studies, the program highlighted that SSPPPs are easy to scale up, adapt, and are practical to implement for local development.

This collaborative approach provided a foundation for the practical guidance outlined in this paper for policymakers, practitioners, and stakeholders. Aligned with the UN SDGs, the paper underscores the critical role of SSPPPs in fostering economic growth, advancing social equity, promoting sustainability, and delivering transformative, scalable solutions.

1.2. DEFINITION OF SSPPPs

For purposes of these guidelines, we consider small-scale public-private partnerships as smaller-sized infrastructure or service delivery partnerships between the public and private sectors. They are typically more community-focused than large-scale PPPs, and hence implemented at the municipal, regional, or subnational levels.

1.3. BENEFITS OF SSPPPs

SSPPPs offer benefits that contribute to sustainable development and economic empowerment at multiple levels. The benefits outlined below illustrate how SSPPPs play a transformative role within communities and align closely with SDGs.

Targeting Service Delivery

SSPPPs are uniquely positioned to deliver localized infrastructure improvements that address the specific needs of smaller communities, often reaching areas inaccessible to large-scale PPPs due to financial, logistical, or regulatory constraints. This targeted approach allows resources to be allocated efficiently, directly benefiting underserved areas and enhancing the quality of life for the public through tailored community-focused interventions.

Contributing to Local Socio-Economic Impact and Development

SSPPPs enhance infrastructure and public services that are critical for socio-economic impact and development. By focusing on essential needs such as transport systems, energy access, and social services, these partnerships create a foundation for sustainable economic activity, helping communities become more self-sufficient and enhancing residents' quality of life. For example, small-scale health infrastructure projects significantly improve healthcare access. Thus, SSPPPs in healthcare have increased primary healthcare access by 15%**[1]** in low-income regions, reducing morbidity and mortality rates. Another example is a small-scale renewable energy project in the Philippines that incorporated community workshops and consultations to better align the project with local objectives, ultimately fostering a sense of ownership and accountability among residents.

Increasing the Involvement of Small and Medium-Size Enterprises (SMEs)

SSPPPs provide a critical entry point for SMEs to participate in infrastructure and service delivery. SMEs can act as investors, contractors, and service providers, gaining valuable experience and building their capacity for future, larger projects at the national or international levels. As a major contributor to job creation, SMEs represent about 90% of businesses and more than 50% of employment worldwide**[2]**. This dynamic allows SMEs to strengthen their market position and grow into larger, more competitive businesses capable of contributing to subnational, national, and global infrastructure initiatives. By strengthening the local private sector, SSPPPs amplify their economic impact while enhancing project sustainability and innovation.

Active Community Engagement

SSPPPs promote active community involvement, ensuring stakeholders, direct and indirect beneficiaries of projects, are engaged throughout project phases. This participatory approach fosters transparency, aligns outcomes with community needs, and enhances public trust. By prioritizing localized input, SSPPPs improve long-term sustainability, strengthen community well-being, and encourage a sense of ownership. These targeted investments enhance residents' quality of life and promote inclusive growth.

In Austria's Schilcherland project, citizen engagement during the opening ceremony fostered public support for the waste management PPP. Similarly, São Simão implemented water tariffs only after educating residents about rational water usage, reducing political resistance.

Potential for Scalability and Replicability

SSPPPs projects offer agility and flexibility, allowing the public sector to pilot a solution and, if successful, scale it up and replicate across regions and sectors. This scalability facilitates iterative improvements to PPP frameworks, ensuring that effective models are adaptable to various contexts. The replicability of these projects enables the efficient use of resources and shared insights, making SSPPPs particularly practical in under-resourced regions where recurring challenges can benefit from proven solutions. The Market Infrastructure Development Project in Charland Regions (MIDPCR) in Bangladesh exemplifies how SSPPPs can effectively foster local involvement and scalability.**[3]**

Mobilizing Local Financial Institutions to PPPs

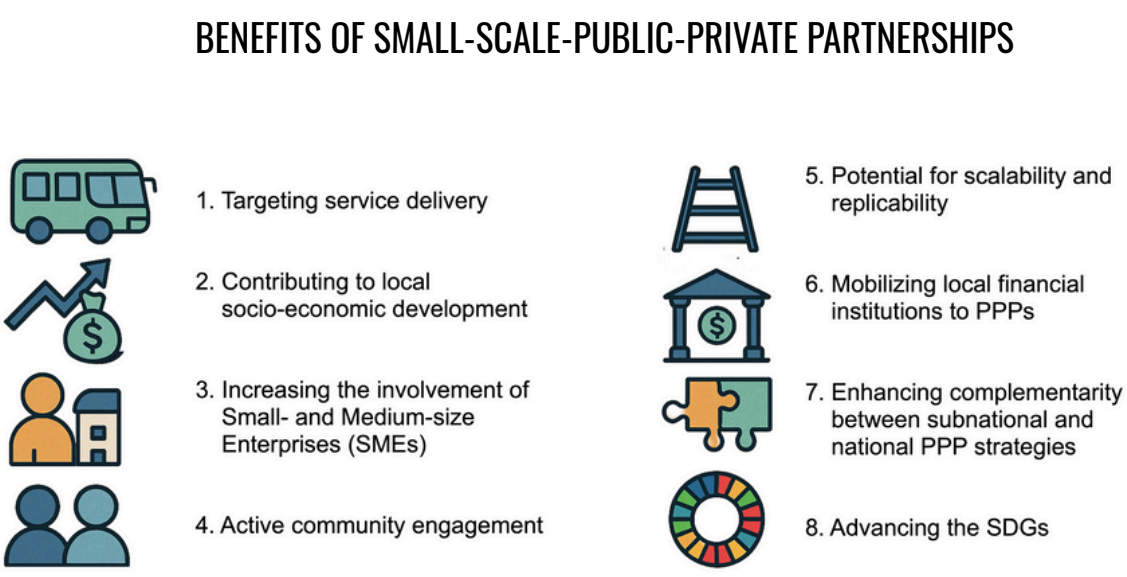
SSPPPs often incorporate local currency, microfinance, and community-based financing to mobilize capital efficiently. By reducing barriers to entry, SSPPPs attract new financiers who normally don't participate in long-term infrastructure investments by blending financing from public banks, local financial institutions, philanthropy, SMEs, small-sized private investors, and businesses.

Enhancing Complementarity between Subnational and National PPP Strategies

SSPPPs enhance national and subnational PPP programs by filling critical service gaps, addressing localized infrastructure needs, and extending the reach of large-scale projects. By leveraging national PPP risk-sharing mechanisms, standardized procurement processes, and governance frameworks, SSPPPs gain stability, sustainability, and operational efficiency. Their integration within national development strategies allows them to access resources and expertise from larger PPPs, contributing to a cohesive and well-structured infrastructure system. National subnational programs can often provide the legal, financial, and institutional frameworks that guide SSPPPs, ensuring consistency in procurement, risk-sharing, and contract management.

Advancing the SDGs

SSPPPs are integral to achieving the SDGs, becoming a practical, everyday financing for development (FfD) mechanism for addressing critical local challenges. Most SDGs can be linked to and impacted by small projects. By embedding SDGs into PPP policy frameworks, governments can deliver targeted, inclusive, and scalable infrastructure solutions that effectively advance each SDG targets. SSPPPs emphasise localized impact and ability to operate where large-scale projects may not be feasible, making them essential for sustainable development.



[1] World Health Organisation
[2] Boosting SME Finance for Growth: The Case for More Effective Support Policies
[3] IFAD PPP Experiences

KEY CHALLENGES FACED BY SSPPPs

2

2.1. HIGH COST OF PROJECT PREPARATION RELATIVE TO THE SIZE OF THE PROJECT

For Small-Scale PPPs, the cost of project preparation, including the public sector staff time and cost of human resources, especially if trying to comply with generally recommended PPP project preparation guidelines including technical, financial, legal, social, environmental, value-for-money, fiscal impact and bankability studies can be intolerably high compared to the scope, scale, revenue potential, impact, and capital expenditure of the project. Faced with a choice to make between a Small-Scale PPP and a larger-scale PPP, a government or PPP unit will normally opt to focus on the larger project because 1) It is perceived to have a larger impact; 2) The limited number of skilled human resources within the PPP unit can be better employed on a larger project; and 3) The high cost of retaining technical, financial, and legal advisers, as well as the cost of conducting social and environmental impact assessments can be disproportionate to the size of the project.

The private sector also faces a similar dilemma when it comes to Small-Scale PPPs: Should a company use its limited business development resources to analyze and bid on a small opportunity when it can just as well use the same staff resources to bid on a larger project? This limitation is perhaps less significant for SMEs, which are unable to bid on larger projects, but the use of human resources is always an issue for any organization.

2.2. LIMITED EXPERIENCE IN ESTABLISHING AN SSPPPs-SPECIFIC LEGAL FRAMEWORK

Even with SSPPPs' far-reaching impact on the local economy, service delivery, and job creation, differentiating the PPP framework for smaller projects from large projects poses unique challenges for policymakers. These challenges span policy, legislative, and operational aspects, impacting the implementation and success of SSPPPs. Addressing these issues is critical to fostering an enabling environment for these projects.

Legislative and Regulatory Challenges

The legislative frameworks (including PPP law, regulation, and policies) for PPPs is often designed for large-scale projects, making the frameworks ill-suited for small-scale project-specific needs and dynamics. Three main issues are faced:

- Overly complex legal requirements and ambiguities in the existing frameworks increase administrative burdens and transaction costs, creating barriers for contracting authorities at the sub-national level of governments. Inconsistent enforcement of a PPP legal framework across jurisdictions, particularly at subnational levels, compounds these challenges, creating uneven regulatory landscapes that stifle investor confidence.
- Regulatory barriers, such as stringent environmental and social impact approvals, land acquisition hurdles, and zoning requirements, further delay project implementation and inflate costs. These challenges deter private sector involvement, due to the perception of cumbersome compliance requirements and uncertainties due to legal interpretation. Simplifying and adapting legal frameworks to align with the scale and scope of SSPPPs is critical to reducing these barriers and fostering a more supportive environment for their success.
- Frequent law and regulation changes undermine the stability of SSPPPs by disrupting the predictability required for long-term planning and financing. Change in law is considered a political risk and can happen at the sub-national level with changes to land acquisition procedures, environmental and social impact mitigation, tariffs, charges, tax regimes, etc. These shifts increase project costs and delay timelines, resulting in cost overruns, deterring investors, and elevating financing risks. For smaller PPPs with tighter margins, such instability can erode trust between public and private partners, hinder project outcomes, and discourage future private sector participation.

Lack of PPP Operational Guidelines Tailored to SSPPPs

The absence of clear operational guidelines and procedures to undertake SSPPP transactions leads to inefficiencies, poor project outcomes, and diminished trust. Without criteria for small-sized project selection, resources may be wasted on unfeasible projects. A lack of streamlined procurement processes discourages private sector participation, fosters favouritism, and prolongs negotiations. Inadequate financing guidance and weak monitoring further jeopardize projects, while insufficient guidelines leave contracting authorities ill-prepared. Ultimately, the lack of structured operational procedures undermines SSPPPs' potential to deliver value, improve infrastructure, and drive growth.

Weak Institutional Capacity for Small-scale PPP Projects

Significant gaps in technical expertise and allocation of resources, particularly at the subnational level, hinder effective planning, preparation, implementation, and management of projects. Subnational governments often lack the technical knowledge, experience, and dedicated team required to handle the complexities of PPP projects, including financial modelling, contract negotiation, and dealing with performance-based long-term contract management.

Many contracting authorities haven't set up a methodology for screening and prioritization of SSPPPs, leading to unviable project selection. The absence of proper identification criteria makes it difficult for contracting authorities to determine whether a project is best suited for PPP procurement or traditional public financing. Without clear screening methodology, resources are misallocated, and projects with weak feasibility or low impact may be prioritized over more viable initiatives, reducing overall effectiveness of PPPs.

SSPPPs require fiscal management, even at the subnational level. Once operational, SSPPP projects are frequently funded through government disbursements, fees allocated by end users of specific services, or a combination of the two. Contingent liabilities and amounts payable by local authorities may become a burden on the local budget in the future, which reduces flexibility in the event of fiscal risks. At the same time, some national governments render assistance to the local authorities via the allocation/transfer of funds. However, this also carries risks since it raises expectations for similar assistance in the future and, therefore, increases the likelihood that local authorities will pay less attention to fiscal risk assessment when selecting PPP projects.

Managing Stakeholders' Commitment Regarding Private Sector Participation in SSPPPs

Public support and government commitment play a pivotal role in the success of SSPPPs, even more so than in large-scale projects. Due to their smaller investment size and direct impact on local communities, SSPPPs often attract heightened attention from community stakeholders. The smaller scale of subnational projects makes delays or failures more apparent, drawing attention from local media and grassroots advocacy groups. Negative public perception, which may stem from misunderstandings or past performance issues with private sector involvement, can quickly create resistance to SSPPP, making it challenging to garner public cooperation and engagement.

Maintaining Multi-Jurisdiction Collaboration

The lack of inter-agency collaboration among national, regional, and local public sector entities can severely impact SSPPPs by creating fragmented decision-making, inefficient resource allocation, PPP contract enforcement, and regulatory misalignment. These challenges lead to delays, increased costs, and weakened stakeholder confidence, discouraging private sector participation. Without a unified governance approach, projects may face inconsistent policies, redundant efforts, and poor public communication, eroding public trust and causing delays or cancellations.

Inadequate Risk Management

The fundamental challenge is creating a risk management (identification, allocation, and mitigation) strategy that is proportionate to the project's scale while maintaining sufficient incentives for private sector participation. Traditional risk transfer models often become overly complex or financially burdensome when applied to smaller projects. SSPPPs often lack sufficient approaches to address financial, construction, operational, demand, and market risks. The smaller scale of these projects typically means they do not have the resources to conduct thorough due diligence in the absence of an established PPP market for such projects, making them more vulnerable to unforeseen challenges. This vulnerability might lead to imprecise cost-benefit analysis, fiscal impact, and value for money (VfM) assessment during the structuring and tendering phase. For instance, large energy generation projects, or highways, have comparable data to build models, but small bus terminals, or rooftop solar installations, may require door-to-door data collection.

Risk of Creation of Mini-Monopolies

Governments must be careful as SSPPPs can create mini monopolies in social and economic infrastructure due to limited competition, exclusive long-term contracts, and a lack of service alternatives in small or remote communities. These monopolistic conditions are reinforced by high entry barriers, unregulated pricing, and dependency on private expertise, leaving communities vulnerable to high costs and reduced service quality. Weak PPP technical capacity, regulatory, and contract oversight further establishes private operators' dominance in a PPP.

2.3. LIMITED PRIVATE SECTOR AND MARKET CAPACITY FOR SSPPPs

Large firms, while possessing expertise and resources, may not always see SSPPPs as financially attractive unless they align with market expansion or corporate social responsibility strategies. The usual investor and financier communities are reluctant to participate because of the comparative level of effort to prepare the bids, contract negotiation, and financial close to reward. Bidders will incur the same effort and cost for a project with USD 10 million capex as for a project with USD 200 million capex, and the latter is what the investors and financiers are measured against at the end of the day, even amongst the DFI community. Encouraging their participation requires structuring SSPPPs as scalable pilots, bundled opportunities, or strategic community investments. Local governments can also consider publicly owned commercial entities, like EPCOR in Canada, to manage SSPPPs sustainably while reinvesting profits into local infrastructure.

Balancing these different private sector interests, ensuring competitive participation, and structuring projects to attract both SMEs and larger players remains a critical challenge in maximizing private sector involvement in SSPPPs.

2.4. FINANCIAL CONSTRAINTS AND RISK FACTORS IN SSPPPs

Managing funding and financing for SSPPPs is a significant challenge due to limited local government financial resources, high upfront costs, and investment risks associated with small-scale projects. Some of the key financial challenges are discussed below.

Limited Creditworthiness

The lack of creditworthiness among subnational governments makes it difficult to attract private investment and secure favorable financing. Poor credit ratings or weak financial track records increase perceived risks, leading to higher borrowing costs and reduced investor interest in bidding for the project.

This is especially problematic in government-pay SSPPPs, where the reliability of public payment determines the market's ability to raise financing. In user-pay PPP contracts, the contracting authority's counterparty risk will impact the private partner's ability to raise financing in the market, where the lender will insist on step-in rights, direct agreements and stable financial standing of the contracting authority, in case the user demand and revenue doesn't reach the desired level of cash flow in the project. Local government guarantees may require subnational governments to seek national-level support, which may or may not transpire and may come with conditions.

Availability of Long-term Local Currency Financing

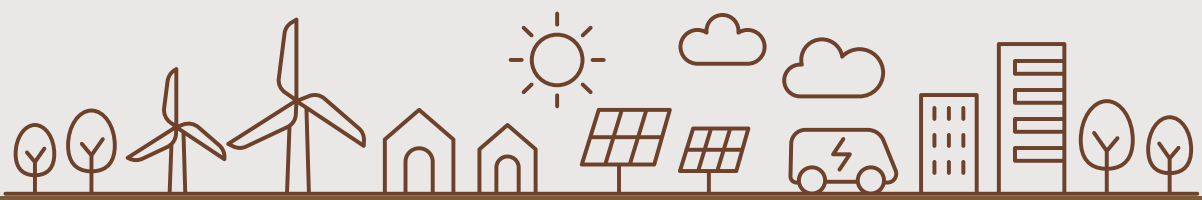
SSPPPs often face challenges in securing local currency financing, as the availability of local capital can be limited or expensive. Access to financing is a key constraint to SME growth. SMEs are less likely to be able to obtain bank loans than large firms; instead, they rely on internal funds, or cash from friends and family, to launch and initially run their enterprises. Currency fluctuations, interest rate changes, and inflation risks can worsen financing challenges, particularly when financing is secured in foreign currency (whether through commercial sources, philanthropy, or national on-lending programs via DFIs), but project revenues are generated in local currency and tied to local macroeconomic indicators. This mismatch can significantly increase debt servicing costs, create financial instability, discourage private investment, and ultimately threaten the long-term viability of the project, potentially leading to contract renegotiation or even termination.

Securing Government Incentives and Guarantees

A major challenge for SSPPPs is securing financing due to perceived higher political and project risks compared to larger projects. Traditional government-driven financial incentives, such as viability gap funding (VGF), capital grants, tax breaks, or subsidies, if not sufficiently robust, may fail to adequately mitigate these risks, making SSPPPs less attractive to private investors. SMEs have limited access to long-term performance-based financing from traditional commercial banks, as banks are not equipped to lend on a corporate or project finance basis. SMEs may often be impaired by their inability to put up sufficient collateral to borrow large amounts of capital.

Even establishing a strong government guarantees program can pose a challenge for SSPPPs due to the limited subnational budgets, impacting the project's attractiveness to private investors. In government-pay PPPs, where the public sector is responsible for ongoing payments, guarantees are critical for ensuring reliable revenue streams and reducing perceived financial risks. Without adequate guarantees, private investors may view local small-scale projects as high-risk, limiting competition and deterring investment.

Moreover, guarantees impose fiscal commitments, including contingent liabilities, budgetary allocations, and reputational risks if the government fails to honor them. Balancing the need for guarantees with fiscal responsibility and long-term financial sustainability remains a key challenge for SSPPP implementation.



LIFECYCLE CONSIDERATIONS

3

This guide will focus on key intervention points that have the greatest relevance to the contexts of SSPPPs. This includes defining the scope of the project by coordinating the needs of the population with the availability of technical actors (utilising, where possible, existing frameworks), financing mechanisms for the SSPPPs, and delivering SSPPPs. The SSPPP project lifecycle perspective requires several considerations for each phase:

- Identification and Preparation
- Structuring and Procurement
- Implementation and Contract Management

3.1 PROJECT IDENTIFICATION AND PREPARATION

There are three areas in this phase where SSPPPs can streamline the PPP process to reduce the time and resources on project preparation. First is the screening process, second is the level of due diligence needed, and third is the approval requirements.

Standardizing and simplifying the screening processes

SSPPP projects at the local level typically originate from the identification of community needs through public consultations and strategic planning by subnational governments. These needs are integrated into broader development plans, where PPPs are explored as viable solutions due to budget constraints or the need for private sector expertise. Sometimes, subnational governments engage the private sector through forums and expressions of interest to explore innovative solutions.

Identifying and screening SSPPPs involves understanding the unique features that distinguish them from larger PPPs. These key attributes encompass financial thresholds, localized scope, and stakeholder engagement. By focusing on these attributes, governments and private sector partners can tailor strategies to support SSPPPs, ensuring they deliver targeted, impactful solutions while fostering sustainable development in local communities.

Inadequate policy and regulatory frameworks exacerbate the problem, as most jurisdictions apply large-scale PPP frameworks, which are often unsuitable for SSPPPs. Complex regulations, such as stringent environmental approvals and procurement processes, further hinder project identification and screening. Some considerations which can be tailored are as follows:

- The first level of screening will often fall into a pass/fail criteria, followed by a more comprehensive set of decisive factors. The second level of screening can have a combination of standardized and tailored criteria. By putting in place simple, clear definitions and conditions, with varying thresholds for financial, sectoral, and operational parameters, there will be fewer inconsistencies in categorizing projects. Data collection and comparable benchmarks would need to be developed as subnational governments gain more experience in undertaking PPPs.

- Proper resource allocation plays a critical role in ensuring effective screening. As the likelihood of SSPPPs to occur is higher at the subnational level, local governments and agencies need to build institutional capacity, expertise, and financial resources necessary for conducting thorough feasibility studies. Some countries have set PPP project preparation funds, which can be allocated for SSPPPs.

The UNECE People-first Infrastructure Evaluation and Rating System (PIERS) methodology can provide a structured framework that can be used for evaluating and prioritizing SSPPPs, ensuring alignment with SDGs and community needs, especially by focusing on five key criteria: accessibility, economic effectiveness, environmental sustainability, replicability, and stakeholder engagement. PIERS ensures that projects deliver tangible benefits, particularly in underserved areas. This is particularly valuable in settings where addressing critical economic and social needs, such as healthcare, education, and basic infrastructure, is paramount.

Pragmatic approach to project preparation and due diligence

SSPPPs need a less cumbersome approach to project preparation. In this phase, the Contracting Authority undertakes a feasibility study of the proposed project by assessing its technical, environmental, climate change, social, economic, financial, risk, fiscal responsibility and affordability, value for money, legal, and marketability dimensions. This includes the preparation of feasibility studies, environmental and social (E&S) impact assessments, value for money (VfM) analysis, fiscal commitments and contingent liabilities (FCCL) estimations, and other appraisals which are generally associated with large-scale PPPs. As a result, the lengthier and more complex the appraisal process, the more burdensome the approval process, which at times can require approvals from the Ministerial and other top levels of the government.

For SSPPPs, the burden of proof in terms of impact from E&S, FCCL, and VfM is much less– and more often does not go beyond the subnational government's investment program mandate and public finance management. Contracting authorities can combine or bundle packages of small projects to undertake wider appraisals applicable to the portfolio of projects. For instance, conducting impact assessments for an economic zone or a town, which could consist of water supply and waste management, rooftop solar panels, and agricultural market PPP projects. By establishing a baseline master plan assessment, the economies of scale would reduce the project-by-project studies and approvals. Specifically,

- In government-pay SSPPPs, where the public sector makes periodic payments for infrastructure or service availability, a streamlined analysis may be conducted. However, the process should avoid excessive costs or complexity, focusing on key factors such as lifecycle costs, service performance, and stakeholder value.

- In user-pay SSPPPs, the private partner collects fees directly from the end users of the service or infrastructure. The private sector assumes the demand risk, as revenue depends on usage levels. In-depth analysis may not be necessary when the comparison is simply between implementing the project and maintaining the status quo. The extent of the assessments will depend on the E&S complexity and any fiscal risk impact from government guarantees, equity participation, etc.

Delegating SSPPP project approvals to the appropriate authority

The approval process to initiate and finalize SSPPPs can add a significant amount of time and effort in moving the project forward, especially where different levels of government and regulatory bodies are involved. Subnational governments should streamline bureaucratic procedures, introduce standardized approval gateways, and enhance coordination among agencies. For example, in Serbia, an interested agency/organization (central or local) submits a PPP proposal to the national Commission for PPP, which evaluates the project and renders a conclusion on whether the PPP model is pertinent for the specific project. If the estimated cost of a PPP project submitted by a central, local, or other state enterprise/legal entity exceeds 50 million Euros, the Commission for PPP is required to seek approval from the Ministry of Finance. If a PPP project is implemented at the central level, the procuring entity submits it to the Government of Serbia for approval. If the project is implemented at the level of an autonomous province, it is delivered to and approved by the government of the autonomous province, while approval of a project at the local/municipal level is the function of the local assembly (electoral body).

3.2 PROJECT STRUCTURING AND PROCUREMENT

Contracting authorities can condense SSPPPs' structuring and procurement procedures into three aspects: making risk management sensible in project structuring, adapting procurement and contracts, and managing transparency and anti-corruption measures.

Putting Risk Management into Perspective

Effective risk-sharing design must carefully calibrate risk mitigation techniques to maintain the inherent investment opportunity's strategic value and attractiveness. Some of the streamlining processes are described below:

- **Adaptable Risk Mitigation Techniques:** SSPPP contracts should incorporate proportionate risk mitigation techniques and allow for adjustments over the project lifecycle. Lower-complexity risk transfer mechanisms, such as partial guarantees or risk-sharing arrangements, can help manage risks without introducing excessive complexity. Additionally, governments should consider creating local risk-sharing facilities to provide targeted support for SSPPPs, particularly in areas with higher market volatility.
- **Proportionate Risk Allocation:** A key principle is to allocate risks to the party best equipped to manage them, but in a manner proportionate to the scale of the project. Overly complex risk transfer mechanisms can be costly and inefficient for SSPPPs. For example, in smaller-scale renewable energy projects, some performance risks can be shared between the public and private sectors through performance-based tariffs. More research is needed on optimal risk-sharing models for different types of SSPPPs.
- **Simplified Risk Mitigation Instruments:** Instead of complex hedging instruments, simpler mechanisms like guarantees or insurance products tailored to SSPPP risks can be more effective. For example, financial facilities or guarantee funds hosted by local non-banking financial institutions (NBFIs) or FIs, backed by DFIs, can mitigate political and regulatory risks, and innovation in this area could focus on developing standardized guarantee products specifically for SSPPPs.
- **Community Risk Sharing:** In some cases, communities can play a role in mitigating certain risks. For example, in community-based water projects, local communities can take responsibility for minor maintenance and repairs, reducing the operational risk for the private operator. More work can be done to explore and document successful examples of community risk sharing in SSPPPs. Developing local risk-sharing facilities or locally based models, where local actors assume minor operational risks, can also foster ownership and mitigate challenges.
- **Designing Clear Performance Indicators that Align Public and Private Sector Interests:** Strong appraisal processes and active engagement with the users will ensure that the appropriate KPIs have been used to design the unitary payments. The KPIs will determine the balance between the public and private sectors and serve as the main indicator for local public service obligations to the community without undermining the public's perception about the private sector's main interest of making money.

The goal is to create a risk management model that provides sufficient protection for both public and private partners while maintaining the project's economic viability. This might involve innovative approaches such as partial risk guarantees, shared contingency funds, or performance-linked risk adjustment mechanisms.

Strengthen Project Structuring and Transparent Procurement

Simplifying and streamlining the SSPPPs' procurement and contract provisions while maintaining their core principles ensures that they remain viable, efficient, and attractive to both public and private partners. Scaled-down bidding procedures and contractual obligations focus on essential needs, making the process more cost-effective and efficient. Some of them include:

- **Standardization:** Standardizing contracts—with terms and conditions tailored for bundling similar projects, such as irrigation and water supply—and creating templates to procure a program of services from similar private contractors (e.g., rooftop solar, street lighting, district heating) are effective ways to simplify and facilitate private sector engagement. General provisions can be streamlined with standardized templates for common terms like confidentiality and reporting. Reporting should focus on key metrics tied to performance and public benefit, while removing redundant clauses for shorter, more efficient agreements.
- **Financing Mechanisms:** Financing for SSPPPs can be simplified with what is available in the local market and can be mobilized further with support from public banks and innovative mechanisms. Local financial institutions may combine shorter-term loans with flexible collateral requirements and reasonable interest rates. The directly negotiated or equity-only model particularly excels in scenarios with moderate capital requirements, where investors can directly fund project costs without leveraging complex debt instruments. Local SMEs can access cooperative banks, which offer financing with better terms and conditions designed specifically for small-sized contracts to deliver infrastructure services. An example is Bank Polskiej Spółdzielczości in Poland.
- **Insurance and Security:** Insurance for SSPPPs can focus on essential coverage like liability and property, use pooled policies to cut costs, and share risks fairly to ease private sector burdens and attract investors. Similarly, bid and performance bonds could be adjusted for SMEs where they don't have the proportionate security or financial track record of such a scale of infrastructure investment.
- **Force Majeure and Relief Events:** These can be simplified with standardized clauses, clear definitions, and scaled remedies such as extensions or minor compensations. Fast-track resolution processes ensure prompt handling to avoid project delays. Conducting upfront climate risk and vulnerability assessments by contracting authorities can minimize unforeseen events to occur later.
- **Conflict Management:** Even with the best contracts, conflicts will occur. SSPPPs' conflict management needs more local and less cumbersome solutions with community sensitivity. Contracts can require local mediators, dispute board practitioners familiar with the context who can simplify processes, help come up with recommendations to cut costs, and ensure quick, fair outcomes. More information is provided in the next phase.
- **Termination:** Termination clauses can be simplified with clear triggers relevant to small projects and predefined compensation formulas based on metrics like remaining value or debt, ensuring clarity and ease of settlement.
- **Hand Back Requirements:** These should focus on clear, functional standards rather than detailed conditions. Shorter operational periods and early public-private collaboration ensure smooth and efficient asset transitions.

Transparency and anti-corruption measures

The UNECE 'Standard on a Zero Tolerance Approach to Corruption in PPP Procurement' can be effectively applied to SSPPPs by ensuring transparent, competitive bidding processes tailored to the project's scale.

It promotes ethical training for local officials, active community involvement, and anti-corruption clauses in contracts to enhance accountability. Risk management tools from the Standard help address vulnerabilities specific to small projects, while whistleblower protections and independent monitoring deter and address misconduct. By fostering transparency and integrity, the Standard ensures corruption-free procurement and builds trust in SSPPPs, leading to equitable and sustainable outcomes.

Disclosure of PPPs ensures transparency, accountability, and public trust. It spans the entire PPP lifecycle, covering project rationale, procurement details, contractual terms, milestones, and outcomes, fostering confidence in decision-making and resource management. Transparency builds trust, ensures accountability, and addresses scepticism by clearly communicating objectives, costs, and benefits. It also strengthens oversight, mitigates inefficiencies, and supports stakeholder capacity building.

Contracting authorities must balance transparency with confidentiality, simplify complex data, and meet regulatory requirements. Adopting frameworks like the World Bank's and leveraging best practices, such as Kenya's PPP disclosure framework, and Canada's Alberta and Ontario disclosure of PPP contracts, enhance transparency, accountability, and informed decision-making.

3.3 PROJECT IMPLEMENTATION AND CONTRACT MANAGEMENT

SSPPPs require strong relationship management to succeed. Some measures that contracting authorities can adopt are as follows: **a)** pay attention to performance monitoring, **b)** enhance institutional capacity, **c)** adapt to collaboration and changes; and **d)** anticipate and resolve disputes.

- **Monitoring** is essential following key performance indicators (KPIs), performance tracking systems, and regular audits agreed in the contract as part of the monitoring and evaluation (M&E) framework, to ensure transparency, accountability, and the achievement of project objectives. For example, Croatia has effectively implemented M&E frameworks for SSPPPs, guided by the UNECE People-First PPP Framework and the EU Structural and Cohesion Funds Regulations. Projects like the Zagreb School Infrastructure Development Program use clear KPIs to monitor timeliness, cost efficiency, and service quality. Overseen by the Agency for Investments and Competitiveness (AIK), these frameworks employ digital tools for real-time monitoring, regular audits, and stakeholder consultations to ensure transparency and adaptability.
- **Collaborative Contract Implementation:** For small projects, especially led by SMEs, both parties would need to define how to communicate as per memorandum of understanding and process, alongside the contract documentation. Many SMEs, if they haven't been in a PPP type of relationship, may seek additional resources to properly adhere to the contractual requirements of reporting and auditing, filing paperwork and audited financial statements, monitoring milestones, impact mitigation measures, worker safety and health, addressing community complaints and grievances, etc.
- **Developing Project Management Skills:** The contracting authority may set up a project-based or portfolio-based contract management team in-house or outsource the expertise. Often, the team is small, comprising critical skills based on type of projects. This team should be part of selection of the private party and contract negotiation to build a deeper understanding of the contract from the start. Given the small scale of activities in the project, contract management may set up thresholds for ease of approvals and instances of non-performance. Digitizing the monitoring and reporting may require additional training for teams both on contracting authority and private party sides.

- **Adapting to Changes:** Responsiveness in contract management is vital for adapting to unforeseen changes in scope, policy, or market conditions, ensuring the partnership remains effective. A clear workflow and change order process with proper documentation ensures timely reviews and approvals. Contracts must define triggers for changes and include adjustable mechanisms to modify scope, timelines, and budgets. In general, any post-commercial close changes to laws or contractual requirements should allocate risks appropriately to the party best able to manage through a formal change order process.
- **Preparing for Conflicts:** Like in most projects, conflicts are an inherent part of SSPPPs, often arising from ambiguities, information asymmetries, and differing goals among stakeholders. Since SSPPP parties typically cannot afford long negotiations or extensive due diligence, establishing a very high-quality communication culture is essential. Sensitivity to cultural preferences such as time concepts, bargaining styles, and evaluation criteria are critical for fostering collaboration and reducing disputes. Experience shows that the better project teams have set up procedures to anticipate and are prepared for conflicts, the less likely it is they have to deal with intense and emotional conflict. Tailoring contracts to local contexts, ensuring proportional obligations like reporting and penalties, and involving experienced practitioners are essential steps for effective governance in SSPPPs.
- **Consensus building:** This serves as an essential first step in avoiding and resolving disputes, ensuring parties attempt amicable resolution before moving to self-determined mediation, formal arbitration, or judicial proceedings. Conciliation allows stakeholders to explore mutually acceptable solutions with the help of a neutral, minimizing the risks of escalation. Mediation catalyzes deeper negotiations, focusing on interest-based options, addressing risks, and encouraging alignment for a mutually acceptable outcome. By resolving disputes early, conciliation and mediation minimize the need for arbitration, which is disproportionately resource-intensive in terms of emotions, time, energy, and money.

"SSPPPs REQUIRE STRONG RELATIONSHIPS MANAGEMENT TO SUCCEED."

SSPPPs IN VARIOUS SECTORS

4

UNLOCKING SECTORIAL IMPACT: SSPPPs IN SOCIAL AND ECONOMIC INFRASTRUCTURE

This section examines the sector-specific application of SSPPPs, exploring their potential to foster innovation and efficiency in traditional sectors while acknowledging the contextual factors crucial for their success. The paper provides insights into potential benefits and considerations across two primary infrastructure categories

- **Social Infrastructure** accommodates social services including hospitals, schools and universities, prisons, housing, courts, etc.
- **Economic Infrastructure** makes business activity possible, such as communication, transportation, as well as distribution networks such as water, wastewater, and energy supply systems.

4.1. SOCIAL INFRASTRUCTURE

The social infrastructure sector presents a compelling case for the widespread adoption of SSPPPs. Social infrastructure projects generally focus on providing essential services and facilities to communities, often improving the quality of life and economic prospects. With their strong emphasis on focused solutions, SSPPPs offer a dynamic and efficient approach to bridging gaps in social service provision, whilst offering flexibility and responsiveness to community-specific needs.

User-pay SSPPPs in social sectors may struggle with user affordability issues, making services less accessible, particularly to low-income populations. Willingness to pay uncertainty in small communities for services considered a public good further complicates revenue generation, as fluctuating usage and resistance to fees undermine financial viability. Administrative burdens, such as fee collection and enforcement, further raise costs and discourage private investment.

Using a government-pay PPP model can offer several advantages, particularly for community-focused projects. In this model, the private partner is compensated based on the infrastructure's availability and service-driven performance-based criteria, instead of dependence on direct user payments to the project company.

Governments can put in place explicit incentives to attract private partners such as **(a)** limiting or managing competition; **(b)** having a clear and robust payment mechanism, whether government-pay or user-pay or user-pay via government vouchers as in the case of school voucher systems; **(c)** a competently compiled public sector comparator, which enables evaluation of prices on a fair basis.

Under the government-pay modality, construction and operational risks are managed by the private sector, and the contracting authority retains demand risk. By spreading payments over the contract's lifecycle without requiring significant upfront investment, contracting authorities can manage budgets more effectively and ensure proper services to the community. Tailored to local needs, government-pay PPPs align private incentives with public goals, making them an ideal approach for delivering essential social infrastructure in a financially sustainable and impactful way.

4.1.1. Education Sector

SSPPPs can effectively deliver diverse education projects like primary and secondary schools, childcare centers, libraries, vocational training centers, special education facilities, e-learning and knowledge centers, addressing specific district needs and fostering innovation in infrastructure and service delivery. These projects enhance access to quality education, job market readiness, promote equity, and contribute to the overall development of society.

PPPs in education must include concise private sector obligations, clear objectives, robust contracts, and strong public oversight. PPP agreements should define technical standards, performance metrics, and public involvement in curriculum approval and student welfare. Regular audits, transparent reporting, and community engagement ensure accountability and alignment with public needs, maintaining quality, equity, and accessibility.

Box 4.1
Ulaanbaatar City Government Education Sector Kindergartens Retrofitting, Mongolia

The Mongolia Education Sector Kindergartens Retrofitting project aimed to improve the energy efficiency and thermal comfort of kindergartens in Ulaanbaatar, the capital city. Facing harsh winters and aging infrastructure, many kindergartens lacked adequate heating and insulation, leading to high energy consumption and uncomfortable learning environments for children. This project sought to address these challenges by retrofitting existing kindergartens with energy-saving technologies. The project prioritized energy efficiency and environmental sustainability by upgrading heating systems, insulation, and windows in kindergartens. This not only reduced energy consumption and costs but also created a healthier and more comfortable learning environment for children.

Case Study Highlights

- **Innovative Financing:** The project utilized a blended financing approach, combining private sector investment with city budget funds. This innovative model could be replicated in other contexts to mobilize resources for social infrastructure projects.
- **Technology Transfer:** The project facilitated the transfer of energy-efficient technologies and expertise to the local construction industry, contributing to capacity building and sustainable development in Mongolia.
- **Improved Learning Environment:** By enhancing the thermal comfort and energy efficiency of kindergartens, the project created a more conducive learning environment for young children.
- **Enhanced Comfort and Health:** The improved thermal performance of the buildings created a healthier and more comfortable learning environment for children.
- **Community Benefits:** The project contributed to community development by creating jobs and promoting local economic activity.

Source: Ulaanbaatar City Government

School buildings have been thermo-technically retrofitted in 2012.
One of them is the school No.63 for disabled children located in Khan-uul district.

Source: *Thermo-Technical Retrofitting of State-owned Schools and Kindergartens In Ulaanbaatar, Mongolia Preliminary study Main Report Ulaanbaatar, Mongolia, 2014*

4.1.2. Healthcare Sector

SSPPPs have emerged as an effective model in healthcare, delivering tailored solutions that improve access, quality, and efficiency. By using standardized designs for clinics, diagnostic centers, and specialized facilities, PPPs enhance cost-effectiveness and maximize infrastructure investments at the local level. The World Health Organization has recommended three models for PPPs in the healthcare sector, incorporating varied approaches to assets, payment mechanisms, and the allocation of costs, risks, and benefits.

- **Model 1 - Specialized Clinical/Diagnostic Services PPPs**, where a public entity partners with a private operator to provide specialized equipment and clinical services, such as dialysis, radiotherapy, and day surgery, as well as diagnostic services, including laboratory testing, imaging, and nuclear medicine. In SSPPPs, this model enhances rural healthcare access by equipping local clinics with advanced diagnostics, with the private sector supplying expertise and equipment while the public sector ensures integration.
- **Model 2 - Health Facility PPPs**, where a private operator oversees the design, construction, financing, and operation of healthcare facilities, such as hospitals, ambulatory care centers, polyclinics, and primary care clinics, while the public sector retains responsibility for managing clinical services. SSPPPs can apply this to community health centers and maternal clinics, ensuring efficient infrastructure management while maintaining public healthcare oversight.
- **Model 3 – Integrated PPPs**, where the private operator handles both facility operations and clinical services in a defined capacity. SSPPPs can establish multi-functional healthcare hubs combining facility management with diagnostic and outpatient services for underserved communities.

The World Health Organization's 2023 Healthcare Access Report highlights those regions utilizing SSPPP-operated clinics achieved a 47% improvement in basic health service coverage compared to traditional public facilities.[1] For SSPPPs to be effective, they must address local healthcare needs, ensure affordability and accessibility, allocate risks efficiently, and maintain public oversight. Blended financing models, such as user fees combined with government subsidies or performance-based payments, play a key role in ensuring financial sustainability and equitable access. For example, a dialysis center PPP could incorporate subsidies for low-income patients, ensuring essential care while maintaining operational viability.

Box 4.2
Chungju Medical Center Relocation and Construction Project, South Korea

The project aimed to address the healthcare needs of a geographically remote area with limited access to advanced medical services. This involved relocating and constructing a new medical center, equipped with modern facilities and technology, to improve the quality of care for residents.

Case Study Highlights

- **Improved Access to Care:** The project significantly increased access to quality healthcare services for residents, reducing the need to travel long distances for specialized treatment.
- **Enhanced Service Delivery:** The new medical center offered a wider range of services, including specialized clinics and advanced diagnostic capabilities, improving the overall quality of care.
- **Community Impact:** The project fostered a strong sense of community ownership and engagement, and the project stimulated local economic activity and created jobs in the healthcare sector.
- **Financial Sustainability:** Despite the challenges of operating a public medical center, the project achieved profitability within a few years, demonstrating the potential for financial viability through efficient management and increased demand.

Source: Chungju Medical Center

4.1.3. Housing Sector

SSPPPs provide an efficient and sustainable approach to delivering a range of housing solutions, including social housing, affordable housing, low-cost housing, and temporary shelters.

Social Housing provides safe and dignified accommodations for vulnerable populations, such as low-income families, seniors, and individuals with disabilities. SSPPPs often leverage public subsidies, land contributions, and private sector capabilities in design, construction, and management to deliver accessible and inclusive housing. Example: A municipality contracts a developer to build rental units for low-income families, retaining control over tenant selection and rent policies.

Affordable Housing SSPPPs focus on middle-income families, making housing more accessible through tax incentives, blended financing models, and efficient construction techniques. Example: A private developer constructs a mixed-income residential project, reserving a portion of the units for moderate-income families. The public sector supports the projects through incentives such as tax breaks, grants, or reduced land costs.

Low-Cost Housing & Temporary Shelters provide cost-effective homes for marginalized communities and rapid relief during disasters using modular and prefabricated designs. Example: A local government allocates land to a private builder, ensuring homes are sold at subsidized prices to maintain affordability.

By engaging local stakeholders in planning and design, SSPPPs ensure housing projects align with community needs, enhance social equity, and support sustainable urban growth.

Box 4.3
Rwandan Affordable Housing Project in Kinyinya, Kigali

The Rwandan Affordable Housing Project in Kinyinya, Kigali, is an initiative aimed at addressing the pressing housing needs in Rwanda's rapidly urbanizing capital. With a projected influx of urban dwellers and a significant housing deficit, this project seeks to provide affordable housing options for low and middle-income earners while promoting sustainable urban development. The project directly tackles the housing shortage in Kigali, aiming to accommodate the growing urban population and prevent the formation of informal settlements. The project benefits from significant government support, including the provision of basic infrastructure, assistance with land acquisition, and access to affordable financing options for buyers.

Case Study Highlights

- **Strategic Location:** The project's location in Kinyinya, a growing suburb of Kigali, provides residents with access to amenities and employment opportunities while alleviating pressure on the city center.
- **Government Incentives:** The government's commitment to providing infrastructure and facilitating land acquisition reduces development costs and enhances project feasibility.
- **Affordable Financing:** Access to cheap and long-term loans through the Rwanda Housing Finance Project makes homeownership more attainable for low-income earners.
- **Social Impact:** By providing affordable housing, the project contributes to improved living standards, social inclusion, and sustainable urban development.

Source: Rwanda Affordable Housing

4.1.4. Water and Sanitation Sector

SSPPPs can play a crucial role in expanding access to water and sanitation services, particularly in underserved urban and rural areas where traditional infrastructure is limited or unfeasible.

- **Water Supply Systems:** SSPPPs can facilitate the establishment of small-scale water treatment plants, decentralized distribution networks, and community-managed water kiosks in areas lacking piped infrastructure. By engaging private partners, subnational governments can expand coverage and improve efficiency while ensuring reliable, safe drinking water for households.
- **Sanitation Facilities:** These partnerships are pivotal in developing and maintaining sanitation infrastructure, particularly in areas with poor sanitation access. Projects include building public toilets, sanitation blocks, small-scale sewer networks, and decentralized waste management systems. They address the challenge of poor waste disposal by integrating localized treatment solutions, reducing contamination risks and improving hygiene standards.
- **Wastewater Treatment:** Decentralized wastewater treatment plants delivered through SSPPPs are crucial for sustainable water management. These systems help communities manage sanitation in locations where centralized sewage systems are impractical. By fostering collaboration, SSPPPs provide customized solutions to water and sanitation challenges, promoting healthier communities, conserving natural resources, and advancing sustainable development.

Box 4.4
USAID Transform WASH, Mozambique

The USAID Transform WASH Mozambique initiative focuses on clustering smaller utilities in the water and wastewater sector to improve economic efficiency and enhance water supply coverage in Mozambique. The project clusters smaller water utilities to achieve economies of scale, improve efficiency, and enhance their operational capacity. It also makes use of blended finance by leveraging both public and private investments to address the funding gap and expand water supply coverage. The project establishes a fund managed by a private entity to ensure efficient resource allocation and better engagement of private sector partners.

Recognising the importance of service delivery and the benefits of increased water supply coverage, even in areas with affordability challenges, the project focuses on optimizing efficiency through clustering and cross-learning among smaller utilities. The project incentivizes private sector participation to connect low-income neighbourhoods through connection subsidies.

Case Study Highlights

- **Increased Water Supply Coverage:** The project has the potential to significantly increase water supply coverage in small towns across Mozambique.
- **Improved Economic Efficiency:** Clustering smaller utilities has led to improved economic efficiency and operational capacity in the water sector.
- **Enhanced Private Sector Engagement:** The project has successfully engaged private sector partners through innovative financing mechanisms and incentives.
- **Addressing Funding Gaps:** The project has effectively addressed funding gaps by leveraging both public and private investments.
- **Focus on Service Delivery:** The project prioritizes service delivery and the benefits of increased water supply coverage, even in areas with affordability challenges.

Source: WASH Mozambique

4.1.5. Community and Cultural Infrastructure Sector

SSPPPs support the development of arts centers, community hubs, sports facilities, and heritage site restorations, ensuring cost-effective and timely delivery. These partnerships reduce public financial burdens by combining government resources, such as land or grants, with private sector investment and operational expertise.
By engaging local stakeholders, SSPPPs create culturally relevant and financially sustainable projects. Private partners provide expertise and know-how in operations, revenue generation through memberships, sponsorships, and rentals, and enhanced programming. Well-structured agreements and balanced risk-sharing ensure long-term success, making SSPPPs a viable solution for expanding community and cultural infrastructure.

4.1.6. Public and Urban Buildings Sector

SSPPPs play a vital role in delivering government and administrative buildings management, such as municipal buildings, parking garages, public service offices, and administrative centres. The government-pay model is particularly effective in this sector, as it guarantees operational continuity and service quality through structured government payments. By involving private partners in construction, maintenance, and facility management, local governments reduce capital expenditure burdens while ensuring modern, secure, and well-maintained administrative infrastructure.

4.2. ECONOMIC INFRASTRUCTURE

SSPPPs offer a high-impact approach to economic infrastructure development, particularly in cities, regional districts, and provinces. They are especially effective where public investment projects align with SSPPP principles and the private sector can contribute strengths in risk management, technical expertise, local financing, and service delivery. Their smaller size allows for faster capital recycling, attracting private investment while reducing reliance on public funds.

While SSPPPs in economic infrastructure require specialized expertise, they also create local employment and build technical capacity, ensuring long-term sustainability. With meticulous demand forecasting and strategic pricing, these projects can support economic growth and improve essential public services in underserved areas.

SSPPPs play a vital role in delivering government and administrative buildings management, such as municipal buildings, parking garages, public service offices, and administrative centres. The government-pay model is particularly effective in this sector, as it guarantees operational continuity and service quality through structured government payments. By involving private partners in construction, maintenance, and facility management, local governments reduce capital expenditure burdens while ensuring modern, secure, and well-maintained administrative infrastructure.

4.2.1. Transport Sector

SSPPPs tackle transport challenges in underserved areas, ensuring targeted investments that maximize impact and promote equitable access. These partnerships enhance connectivity by developing bus terminals, charging stations, local roads, bridges, transit feeder systems, last-mile access, urban cable cars, and demand-responsive transport, while also supporting micro-mobility, parking solutions, and intermodal hubs to improve urban and rural transport efficiency.

Successful SSPPP implementation in transport depends on methodical demand forecasting, financial viability assessments, and seamless integration with existing networks. In rural areas with significant infrastructure gaps, SSPPPs provide targeted solutions that improve connectivity and accessibility, making them a compelling approach to localized transport challenges.

Box 4.5
Rural Roads, Moldova

This project involved the rehabilitation and maintenance of a network of rural roads in Moldova through a performance-based maintenance contract (PBMC). The government contracted a private company to improve and maintain a total of 1,500 km of rural roads over a 15-year period. The private partner was responsible for carrying out routine and periodic maintenance activities, ensuring the roads remained in good condition throughout the contract period. The project focused on a network of rural roads, representing a smaller-scale intervention compared to major highway projects. This allowed for targeted investment in areas with limited connectivity and significant needs for improved transportation infrastructure.

Case Study Highlights

- **Improved Road Conditions:** The project resulted in significant improvements in the condition of the rural road network, reducing travel times, vehicle operating costs, and accident rates.
- **Enhanced Accessibility:** The improved roads enhanced connectivity for rural communities, facilitating access to essential services and economic opportunities.
- **Cost-Effectiveness:** The performance-based approach ensured cost-effective maintenance and optimized resource allocation.
- Private Sector Engagement: The project successfully attracted private investment and expertise for rural road development, demonstrating the viability of PPPs in this sector.

Source: Rural Roads Moldova

4.2.1.1. Airports Sub-Sector

SSPPPs play a crucial role in developing and operating small and regional airports, addressing infrastructure needs, operational challenges, and financial constraints. These partnerships enable customized, scalable airport development, ensuring right-sized investments that avoid over-capitalization common in larger projects. By leveraging private investment, they reduce public financial burdens while sharing risks and returns.

While regional airports contribute significantly to local economies and connectivity, their financial sustainability remains a key challenge. According to the Airport Council International (ACI) Economics Survey, 97% of airports handling fewer than one million passengers operated at a loss in 2019. The high per-passenger infrastructure costs, coupled with low demand and limited airline interest, make profitability difficult without government subsidies or support mechanisms.

SSPPPs offer structured solutions, but their success hinges on clear revenue models, passenger demand, and willingness from airlines to expand routes. Without a strong demand base, the financial viability of SSPPPs remains uncertain unless local governments bridge the viability gap funding. In response to financial challenges, several tailored SSPPP approaches have emerged:

- **Bundling Airport Networks:** Countries like Mexico, Brazil, and Cape Verde have grouped small airports with profitable hubs, allowing cross-subsidization to offset financial losses.

- **Operations & Maintenance (O&M) Contracts:** In North America and Europe, private operators manage provincial or secondary airports, while infrastructure upgrades remain publicly funded.

- **Targeted SSPPPs for Ancillary Services:** Cargo facilities, logistics hubs, and terminal operations may be more viable for SSPPPs than whole airport development, ensuring profitability without the risks of passenger-dependent revenue models.

While SSPPPs can support small-scale airport infrastructure, the viability of the whole airport development depends on demand, revenue predictability, and external funding mechanisms.

4.2.1.2. Marine Sub-Sector

Greenfield seaport developments are capital-intensive and complex, requiring significant investment in land acquisition, construction, and extensive feasibility studies. Given their large-scale nature and long development timelines, they do not typically fall under SSPPPs. However, opportunities exist where basic port infrastructure is already in place, particularly in niche activities like small passenger ferry terminals, marinas, and coastal protection structures.

- Bundling Underutilized Ports: Grouping second- or third-tier ports into a single concession or operational contract can make projects more financially viable.

- Lease and Concession Agreements: Private partners operate and maintain port facilities while public authorities retain ownership.

SSPPPs in maritime infrastructure require strong public oversight to ensure affordability, environmental compliance, and community alignment. Their phased, scalable nature allows projects to adapt to demand fluctuations while supporting localized economic growth.

4.2.2. Energy Sector

SSPPPs expand energy access and accelerate renewable solutions adoption, particularly in off-grid and underserved regions. Projects like mini-grids, solar parks, and biomass plants provide first-time electricity access while supporting clean energy transitions.

Project feasibility depends on local resource availability (e.g., solar, wind, biomass). In some cases, hybrid systems combining renewable and conventional energy may offer better reliability and cost-effectiveness. For grid-connected SSPPPs, seamless integration with grid operators ensures efficient power distribution.

SSPPPs also drive energy efficiency through retrofit projects, where public entities bundle upgrades to attract private investment. Transparent procurement and performance-based contracts incentivize innovation and ensure sustainability.

Box 4.6
Biomass Power Plant, Croatia

This project involves the development of a biomass power plant with an installed capacity of 2 MW. The plant utilizes locally sourced woodchips and sawmill residues as fuel, promoting renewable energy generation and reducing reliance on fossil fuels. The project was implemented through a PPP scheme, with a private company responsible for the design, construction, financing, and operation of the plant. This project exemplifies how SSPPPs can effectively promote renewable energy development, contribute to environmental sustainability, and support local economic development.

Case Study Highlights

- **Private Sector Expertise:** The private partner brought expertise in biomass power plant technology, project management, and financing, ensuring efficient project delivery and operation.
- **Environmental Benefits:** The project reduces greenhouse gas emissions by utilizing renewable biomass resources, contributing to climate change mitigation.
- **Economic Development:** The project supports local economic development by creating jobs in the forestry and renewable energy sectors.
- **Energy Security:** The project enhances energy security by diversifying energy sources and reducing reliance on imported fossil fuels.

Source: Biomass Power Plant, Croatia

4.2.3. Tourism Sector

SSPPPs offer designed solutions for tourism development by enhancing accessibility, preserving the cultural integrity of assets, and fostering sustainable tourism enterprises. These partnerships enable small-scale infrastructure improvements, such as visitor centers, ferry services, and eco-lodges, which support regional tourism without large public expenditures. SSPPPs also facilitate heritage site management through revenue-sharing models, ensuring financial sustainability for conservation efforts. In ecotourism, private partners can develop eco-lodges and nature-based attractions, with revenues reinvested into environmental protection and community programs.

Community-based tourism initiatives, such as home-stays, cultural festivals, and artisanal markets, can also be structured under SSPPPs, with private partners supporting digital marketing, visitor management, and quality standards. By balancing economic growth with cultural and environmental preservation, SSPPPs serve as a sustainable model for tourism development.

Box 4.7
Jozini Tiger Lodge, South Africa

Located near UNESCO World Heritage Sites and bordering Mozambique and Eswatini, the Jozini municipality faced persistent challenges of unemployment, poverty, and poor infrastructure despite its tourism potential. In 2008, a ten-year partnership was initiated between the municipality, private investors, the National Empowerment Fund (NEF), and the local community to transform a disused hotel site into the 4-star Jozini Tiger Lodge.

Leveraging the enabling environment of the Municipal Finance Management Act (MFMA), the municipality facilitated approvals and essential services, while private investors contributed capital and expertise. The NEF provided RD 28 million (USD 2 million) in working capital, and the local community participated as both landowners and equity stakeholders. Employment stipulations ensured 80% of staff were local, directly addressing unemployment.

Opened ahead of the 2010 Soccer World Cup, the lodge catalyzed further investments and infrastructure development, transforming Jozini into a thriving tourist destination. This success improved local living standards and highlighted the role of SSPPPs in fostering sustainable economic growth.

Source: *Jozini Tiger Lodge, Jozini Municipality of KwaZulu-Natal, South Africa, Public Private Partnership*

Aerial View of Jozini Tiger Lodge and Spa. The facility offers 70 luxury guest rooms, accommodating 182 people.

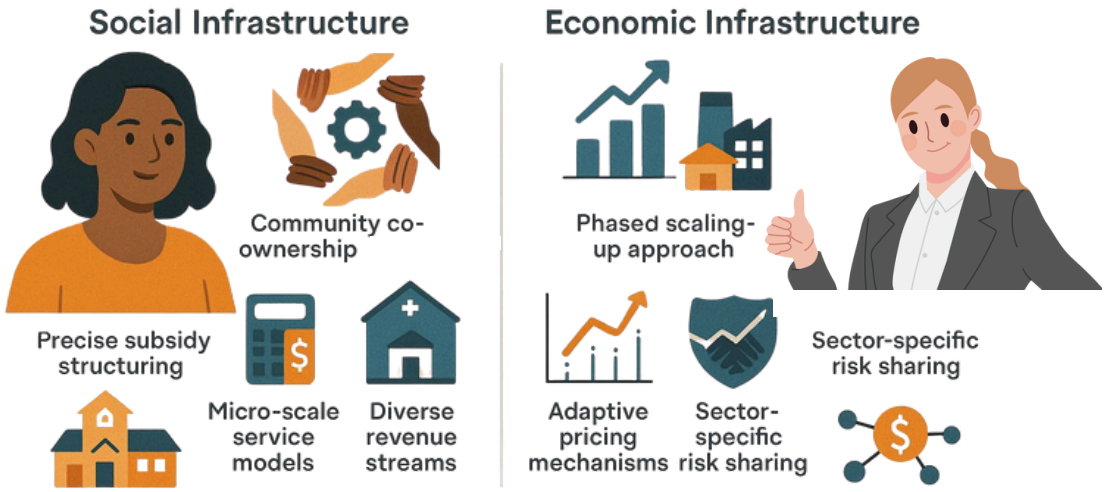
Source: Jozini Tiger Lodge

4.3. CRITICAL SUCCESS FACTORS FOR SOCIAL AND ECONOMIC INFRASTRUCTURE

Success in SSPPPs for social and economic infrastructure requires a tailored approach and hinges on clear objectives, strong stakeholder engagement, and a robust legal framework.

- **Social Infrastructure:** Community co-ownership models (e.g., revenue-sharing or participatory governance) enhance long-term sustainability and local buy-in. Precise subsidy structuring ensures affordability without excessive public dependence. Micro-scale service models, such as micro-franchising in education and healthcare, improve decentralized, high-quality service delivery. Diverse revenue streams (e.g., cross-subsidization, impact-linked financing) strengthen financial resilience.

- **Economic Infrastructure:** A phased scaling-up approach prevents financial overextension by aligning investments with actual demand. Modular expansion allows for incremental infrastructure growth, minimizing risk. Local business integration strengthens supply chains and enhances economic benefits through technology transfer. Adaptive pricing mechanisms (e.g., performance-linked or hybrid revenue models) make projects more resilient to market fluctuations. Sector-specific risk sharing ensures balanced commitments, such as structured off-taker agreements in energy or minimum usage guarantees in transport.



4.4. DISASTER PREPAREDNESS, RECOVERY, AND RECONSTRUCTION

SSPPPs enhance disaster preparedness by developing localized early warning systems, reinforcing critical infrastructure, and recovery by establishing emergency shelters and response facilities. Their flexibility and community-driven approach allow for tailored disaster mitigation strategies, ensuring that preparedness and recovery measures align with specific regional risks.

While SSPPP procurement processes may not always be rapid, mechanisms can be established in advance to enable SSPPPs such as modular emergency facilities, pre-approved infrastructure repair contracts, and rapid deployment service agreements to be quickly implemented when disasters occur.

> "During disaster recovery, SSPPPs enable the rapid repair of critical infrastructure such as roads, water systems, and communication networks, ensuring faster restoration of essential services."

During disaster recovery, SSPPPs enable the rapid repair of critical infrastructure such as roads, water systems, and communication networks, ensuring faster restoration of essential services. Rather than relying on post-disaster procurement, pre-structured SSPPP agreements allow for faster activation of emergency response and recovery efforts. They also provide temporary housing and emergency medical facilities through modular construction and mobile service solutions. Cyclone-resistant housing SSPPPs in Bangladesh provided coastal communities with protection from extreme weather, ensuring long-term housing security. Drought-resilient water systems in arid regions ensured reliable access to water despite changing climate patterns.

SSPPPs enable risk-sharing mechanisms, including insurance-backed recovery programs and contingency financing, reducing the financial burden on governments. By leveraging private sector expertise, they introduce innovative forecasting technologies and rapid deployment strategies, improving response times and minimizing disruptions.However, effective coordination, streamlined regulatory processes, and equitable benefit distribution remain critical to ensuring SSPPPs contribute to inclusive and sustainable disaster resilience efforts.

GLOBAL GOOD PRACTICES

5

Delivering SSPPPs requires tailored approaches to ensure feasibility, stakeholder engagement, and successful outcomes. Below are some examples of global good practices that can be utilized for SSPPPs:

5.1. STRENGTHENING THE SSPPP LEGAL FRAMEWORK

Practice: Strengthening legal framework and project operating procedures at the subnational level ensures SSPPPs are prepared, managed effectively, collaboratively, and successfully.

Example: In **South Africa**, the MIIF 7 framework provides municipalities with financial tools, risk management strategies, and standardized processes to align SSPPPs with national policies. Similarly, the Philippines and Uganda have established PPP guidelines for local government-led PPPs.

Example: In Ceará, **Brazil,** a waste management SSPPP facilitated knowledge exchange between the parties, ensuring municipal staff had the necessary expertise for long-term oversight.

5.2. DECENTRALIZING APPROVAL AUTHORITY

Practice: Granting subnational governments decision-making power over SSPPPs ensures faster, context-driven project execution and reduces reliance on national approvals. Clearly defined financial thresholds prevent excessive bureaucratic delays.

Example: In the **Philippines**, the Local Government Code and BOT Law empower municipalities to contract private partners independently, with financial thresholds guiding project approvals. This structure enables efficient and accountable decision-making at the subnational level.

5.3. ENSURING COMMUNITY ENGAGEMENT

Practice: Proactively engaging local communities, businesses, and civil society organizations throughout the planning, implementation, and operational phases of SSPPPs fosters social acceptance, enhances project sustainability, and strengthens economic benefits at the local level.

Example: The **Dutch** 'Polder Model' prioritizes collaboration among public authorities, private entities, and local communities throughout the planning and implementation stages of projects. By engaging stakeholders such as residents, NGOs, and businesses early in the process through structured consultations, the model ensures that diverse needs are identified and concerns are addressed effectively.

5.4. CREATING INSTITUTIONAL CAPACITY

Practice: Creating localized PPP skills, whether through dedicated subnational PPP units or integrated teams within an existing institutional setup, can enhance SSPPP implementation by retaining specialized expertise, streamlining procurement, and improving access to funding. The choice of approach depends on project volume, local capacity, and available institutional structure.

- High Project Volume & Limited Higher-Level Support: A dedicated subnational PPP unit is beneficial where there is a consistent pipeline of small-scale projects, significant local infrastructure needs, and minimal support from national PPP units.
- Low Project Volume & Resource Constraints: Subnational entities with occasional SSPPPs may find it more efficient to assign multi-disciplinary teams within existing structures rather than creating a full unit.
- Existing National or Subnational PPP Units: If higher-level PPP support is already available, subnational governments should focus on leveraging those resources rather than duplicating effort. Local adaptations might still be required if the units lack a small-scale focus.

Example: The PPP regulation in **Pakistan** is one of the government processes that has shifted to the provincial level. As a result, the provincial governments have the primary responsibility of developing and implementing their own PPP policies and legislation. In this regard, the provincial governments of Punjab, Sindh, and Khyber Pakhtunkhwa have initiated key developments for their individual PPP jurisdictions.

5.5. STANDARDIZING CONTRACTS AND BUNDLING SMALL PROJECTS

Practice: Standardized procurement processes and contract templates streamline SSPPP implementation by reducing administrative burdens and improving efficiency. Bundling small projects into larger initiatives enhances financial viability by lowering transaction costs and creating economies of scale.

Example: **Kazakhstan**'s healthcare PPP program used standardized templates and capacity-building initiatives to overcome municipal skill gaps. These initiatives addressed gaps in local expertise and improved project oversight.

Example: In São Simão, **Brazil**, project bundling for viability was demonstrated through an integrated water, wastewater, and solid waste management SSPPP, which combined multiple services into a single project, ensuring financial sustainability and attracting private investment in a small municipality.

5.6. DESIGNING INCENTIVES AND FINANCING MECHANISMS

Practice: Providing context specific government-driven financial support as part of the bidding process and contracts can attract more bids and interest from the private sector in SSPPPs.

Example: **France** has successfully employed innovative financing mechanisms for SSPPPs, through its 'Contrats de Partenariat' model, which emphasizes local-level implementation. This approach integrates innovative financing tools to enable the delivery of small infrastructure and service projects.

Example: In Ceará, **Brazil**, for a waste management PPP, co-billing mechanisms were introduced alongside robust communication plans to ease public acceptance of new tariffs. By linking the waste management charges with existing utility bills, the project ensured higher compliance rates while minimizing public resistance, demonstrating how strategic policy shifts can align with community expectations in SSPPP contexts.

5.7. ADOPTION AND INTEGRATION OF TECHNOLOGY

Practice: Innovative use of technology and data-driven tools in SSPPPs improves efficiency, risk management, and transparency while optimizing infrastructure investments.

Example: **Estonia**'s use of technology in SSPPPs has streamlined processes, reduced risks, and improved transparency. The country has integrated tools such as e-Procurement Estonia (ePE) and digital twin models to simulate infrastructure projects. Blockchain technology secures procurement processes, while smart contracts automate payment processes and performance monitoring—ensuring more efficient and accountable PPP management.

5.8. DYNAMIC RISK ALLOCATION TO DRIVE INNOVATION

Practice: Equitable allocation of risk between public and private partners through clearly defined roles, structured contracts (e.g., KPIs, Energy Service Agreements), and performance-based incentives safeguards public interests while incentivizing efficiency, innovation, and cost savings, ultimately reducing public financial exposure.

Example: In Požega, **Serbia**, a public lighting SSPPP used an Energy Service Agreement (ESA), where the private partner assumed energy savings risks. This model enhanced efficiency, reduced costs, and ensured high operational performance, demonstrating SSPPP adaptability in smaller municipalities.

5.9. EMBEDDING SUSTAINABILITY

Practice: Integrating sustainability in SSPPPs ensures long-term environmental, social, and economic impact. Prioritizing climate-conscious planning, inclusivity, and responsible resource management strengthens service delivery, minimizes environmental impact, and enhances community resilience, ensuring that SSPPPs contribute meaningfully to SDGs at the local level.

Example: A solar-powered irrigation SSPPP in **Kenya** reduced fossil fuel dependency, improved water conservation, and boosted agricultural productivity.

Example: Small-scale healthcare and energy SSPPPs in **India** minimized environmental footprints while delivering essential services to rural communities

CONCLUSION:
Advancing SSPPPs through Contextualized and Strategic Approaches

6

Successfully implementing Small-Scale Public-Private Partnerships (SSPPPs) requires a deliberate departure from the traditional model of simply downsizing large-scale PPPs. While they share core principles, SSPPPs operate in vastly different environments, often marked by limited institutional capacity, modest financial resources, and localized needs that demand more tailored and flexible solutions. These projects are not just smaller in scale; they are inherently more community-focused, context-sensitive, and adaptive in nature.

To be effective, SSPPPs must be rooted in strategies that reflect the socio-economic, political, and institutional realities of the regions and municipalities they aim to serve. They must respond to the granular needs of local populations while upholding standards of transparency, accountability, and value for money. Global best practices show that when SSPPPs are properly structured, enabled by responsive policy environments, and grounded in community priorities, they can serve as high-impact delivery mechanisms, bridging infrastructure and service gaps in areas that often fall outside the reach of conventional large-scale investment.

"SSPPPs are not merely a scaled-down version of national infrastructure strategies. Rather, they represent a distinct and powerful model for localised development."

Crucially, several enabling conditions are consistently associated with successful SSPPP outcomes. Evidence shows the benefits of empowering subnational governments through legally sound and decentralized frameworks that allow for quicker decision-making, local ownership, and policy responsiveness. Legal clarity and institutional autonomy give local entities authority and confidence to initiate, structure, and manage partnerships aligned with their development priorities.

In chapter 3, it showed that meaningful community engagement must be integrated throughout the SSPPP lifecycle. Building trust with local stakeholders, including civil society, businesses, and residents, ensures that projects are both socially legitimate and operationally sustainable. Community participation contributes to smoother implementation, greater acceptance of user fees or service changes, and more equitable outcomes.

Throughout the paper, we have shown that enhancing institutional capacity is essential for effective project delivery. This includes not only the technical skills needed to manage the complexities of PPP contracts, but also the organizational systems and governance mechanisms that support sound decision-making, contract management, and performance oversight. Capacity-building efforts, whether through local PPP units, regional support hubs, or international technical assistance are critical to equipping governments with the tools and confidence to drive SSPPPs forward.

Technology also plays a transformative role in SSPPP success. The integration of digital platforms, smart infrastructure tools, and data-driven decision-making enhances transparency, improves risk management, and boosts operational efficiency. Countries at the forefront of digital governance demonstrate that even small-scale projects can leverage technology to drive innovation and accountability.

Furthermore, the use of standardized documents, pre-approved templates, and streamlined procedures can significantly reduce transaction costs and administrative complexity, making the PPP process more accessible to smaller municipalities and private firms, particularly local SMEs. Innovative financing approaches, such as blended finance, viability gap funding, and community investment mechanisms, are also essential to making these projects bankable and attractive to diverse investors.

Risk-sharing mechanisms tailored to the scale and nature of SSPPPs alongside a strong emphasis on environmental sustainability, climate resilience, and social inclusion ensure that these projects are not only economically viable but also aligned with long-term development objectives and the Sustainable Development Goals (SDGs).

"Meaningful community engagement must be integrated throughout the SSPPP lifecycle."

Ultimately, the global experiences highlighted demonstrate that SSPPPs are not merely a scaled-down version of national infrastructure strategies. Rather, they represent a distinct and powerful model for localized development. By combining technical innovation with grassroots responsiveness, and by fostering meaningful public-private collaboration at the community level, SSPPPs can unlock a new wave of inclusive, sustainable, and resilient infrastructure and service delivery.

Governments, donors, and development partners should seize this opportunity to invest in enabling environments, capacity-building, and adaptive policy tools that will allow SSPPPs to thrive. When implemented thoughtfully, these partnerships can serve as vehicles for transformation, delivering lasting benefits to citizens and communities most in need.

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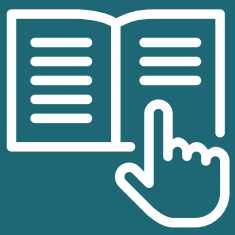

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WAPPP, Rue Rothschild 22, 1202 Geneva, Switzerland
contact@wappp.net