APMG International
Accrediting Professionals

CP3P
CERTIFIED PPP PROFESSIONAL

The Foundation Examination

Multiple Choice

40 minutes

Instructions

1. All 50 questions should be attempted.

2. All answers are to be marked on the answer grid provided.

3. Please use a pencil and NOT ink to mark your answers on the Answer sheet provided.

4. There is only one correct answer per question.

5. You have 40 minutes for this paper.

6. You must get 25 or more correct to pass.

Candidate Number: ....…

1 Which describes a Special Purpose Vehicle (SPV)?

a) A form of procuring authority organization dedicated to a specific PPP
b) A private party that contributes to a PPP
c) A company created specifically to sign and manage the PPP contract
d) A PPP agreement or contract

2 Identify the missing words in the following sentence.

The Guide considers that an institutional PPP may only be regarded as a true private finance PPP when the [?] the project company.

a) government relinquishes control of
b) government owns the
c) private sector is significantly involved as an equity investor in
d) private party is absolved of any risk of performance of

3 What is the PPP process?

a) The way in which government plans to use PPP to achieve improved infrastructure service provision
b) The steps that PPP projects go through to assess whether a project appears to be sound as a PPP
c) The rules and procedures that determine how the government selects, implements and manages PPP projects
d) The steps that PPP projects proceed through in order for the project to be delivered

4 Which type of social infrastructure asset is developed with PPP private finance?

a) National park
b) Fire stations
c) High speed rail line
d) Waste water treatment plant

5 Which describes Common Law?

a) Decisions are based on the provisions of applicable codes
b) Generally uncodified with no comprehensive compilation of rules and statutes
c) Does NOT require a judicial decision
d) Law that is common knowledge

6 Which is an advantage for government of the project finance technique?

a) Lender oversight of the project is encouraged
b) Investors are directly liable for debts incurred
c) Sponsors have total control over the project
d) Debt is guaranteed by a mortgage on the asset value

7 Which is an essential feature of a private finance PPP contract?

a) Responsibility for long-term maintenance of new infrastructure is retained by the public party

b) The private party bears significant risks

c) Contractor is remunerated in advance of works

d) The public party provides a significant portion of the finance

8 Which of the following definitions of the Procurement Decision are true?

1. A decision by the authority to proceed with procurement of a project at the end of the Appraisal phase.
2. A decision as to the best way of buying a project.

a) Only 1 is true

b) Only 2 is true

c) Both 1 and 2 are true

d) Neither 1 or 2 is true

9 How will having a legal system based on codified statutes influence the way a PPP framework is implemented in a country?

a) It will tend to be based on the law

b) It will tend to be based on policy guidance

c) A PPP framework is not appropriate in such jurisdictions

d) It will have no effect

10 Which attributes must a contract for managing services or existing infrastructure contain for it to be regarded as a PPP?

1. Transfer significant risk
2. Performance orientated
3. Relatively long term
4. Private party revenue on a cost plus basis

a) 1, 2, 3

b) 1, 2, 4

c) 1, 3, 4

d) 2, 3, 4

11 Which is **NOT** a role undertaken by the Multilateral Development Banks?

a) Protecting investors and lenders against political risk

b) Providing policy advice to governments in developing local PPP guidance

c) Advising governments in appraising potential projects

d) Financing projects for shorter periods than commercial lenders

12 Which is a source of equity finance for a project company?

a) Export Credit Agencies

b) Initial Public Offerings

c) Miniperms

d) Grant Financing

The Foundation Examination

Rationale

1 OV0222 - Overview

C

Understand the purpose and benefits of a Special Purpose Vehicle (SPV)

a) Incorrect. See rationale C
b) Incorrect. See rationale C
c) Correct. An SPV is a company created specifically to enter into a respective PPP contract. The successful bidder (usually a consortium of companies) will constitute the SPV after being awarded the contract but before signing it. The consortium members will subscribe for pre-agreed percentages of the shares in the company (as committed at bid submission). It will be the SPV that signs the contract with the procuring authority. Ref: Sec 6.1, Box 1.21
d) Incorrect. See rationale C

2 OV0207 - Overview

C

Understand the basic scheme and features of a Public Public Partnership and Institutional PPP infrastructure procurement option

a) Incorrect. A government may procure a DBFOM type of contract to be assigned to a project company that is jointly owned by public and private partners (i.e. a joint venture scheme), but where the government retains the control of the SPV (usually by holding the majority of the equity shares). These schemes, being a joint venture or mixed equity company, are also commonly regarded as “institutional PPPs”. Ref: Sec 2.2
b) Incorrect. When a public corporation is created specifically to develop, finance, and manage infrastructure under a DBFOM contract from the government that owns that corporation and that has approved the project (or such a DBFOM structure is implemented by an existing SOE), the arrangement may emulate much of the financial and governance structure of a conventional (private) PPP vehicle, and the contract structure may be referred to as “Public Public Partnerships”. For an institutional PPP to be regarded as a true private finance PPP, significant equity investment is required from the private sector. Ref: Sec 2.2
c) Correct. The BoK considers that an institutional PPP may only be regarded as a true private finance PPP when the private sector is significantly involved as an equity investor (with a significant portion of the equity shares) in the project company. Therefore, the private partner assumes the project risks, participates significantly in the management of the company and/or the infrastructure operations, and the debt financing is at risk of performance. Ref: Sec 2.2
d) Incorrect. See rationale C

3 OV0104 - Overview

D

Recall the definition of PPP Process

a) Incorrect. The PPP program defines ways in which the government plans to use PPPs to achieve improved infrastructure service provision. This goes beyond the PPP pipeline to include plans to develop additional, unidentified projects. It may include indications of priority sectors in which PPPs are expected to be used and the relevant extent to which the government plans to use PPPs (as opposed to other service delivery mechanisms) in general or in any particular sector. Ref: Glossary
b) Incorrect. PPP screening assesses whether a project appears to be sound as a PPP and can be passed on to the next stage of appraisal. Ref: Glossary
c) Incorrect. The PPP Framework provides the rules, established procedures and institutional responsibilities that determine how the government selects, implements and manages PPP Projects. Ref: Glossary
d) Correct. The PPP process defines the steps that PPP projects proceed through in order for the project to be delivered. Steps include identifying the project, appraising the PPP, structuring the PPP and designing the contract, managing the tender and award processes and managing the contract. Ref: Glossary

4 OV0213 - Overview

B

Understand the sectors, subsectors and types of infrastructure assets where it is common to see examples of PPP developments with private finance

a) Incorrect. National parks are Economic infrastructure assets developed as PPP schemes within the sector of transport. Ref: Sec 4, Table 1.5
b) Correct. Fire stations are Social infrastructure assets developed as PPP schemes within the sector of emergency response and local security. Ref: Sec 4, Table 1.5
c) Incorrect. High-speed rail lines are Economic infrastructure assets developed as PPP schemes within the sector of transport – rail. Ref: Sec 4, Table 1.5
d) Incorrect. Waste water treatment plants are Economic infrastructure assets developed as PPP schemes within the sector of water and waste. Ref: Sec 4, Table 1.5

5 OV0102 - Overview

B

Recall the definition of Common Law

a) Incorrect. See rationale B
b) Correct. Common law is generally uncodified. This means that there is no comprehensive compilation of legal rules and statutes. While common law does rely on some scattered statutes, which are legislative decisions, it is largely based on precedent, meaning the judicial decisions that have already been made in similar cases. Ref: Glossary
c) Incorrect. See rationale B
d) Incorrect. See rationale B

6 OV0225 - Overview

A

Understand the typical financial structure and project finance concept

1. Correct. Project cash flows are the sole basis to recover the loan, so lenders are incentivised to apply greater due diligence. Ref: Sec .7.1
2. Incorrect. The project company's obligations are ring-fenced from those of the equity investors. Ref: Sec 7.1
3. Incorrect. Lender oversight of project governance and performance is inherent to the project finance technique. Ref: Sec 7.1
4. Incorrect. Debt is secured on the cash flows of the project. Ref: Sec 7.1

7 OV0201.3 - Overview

B

Understand the essential features of a private finance PPP contract as a tool to procure new infrastructure

1. Incorrect. One of the essential features of the PPP model is the search for efficiency through the involvement of the contractor. This applies not only to the design and construction of the asset, but also in its long-term maintenance so that construction and maintenance are bundled obligations. In some projects, management will also include operations (either of the infrastructure or a related service). Ref: Sec 1.2, Box 1.5
2. Correct. In the contract, the private party bears significant management responsibility and risks through the life of the contract. The bulk of the risk has to be transferred, as risk transfer is the main driver for PPP efficiency. Ref: Sec 1.2, Box 1.5
3. Incorrect. The link to performance and/or use results in a particular feature of infrastructure PPPs: the contractor will only receive payments (or most of the payments) once the infrastructure asset is completed, i.e. the procuring authority will pay only (or significantly) once the asset is in service. Ref: Sec 1.2, Box 1.5
4. Incorrect. Private finance (usually under a "project finance" structure) may be an essential factor for efficiency. This is because when the private partner finances all or a significant part of the infrastructure and its remuneration is based on the performance (availability and/or use) of such infrastructure, then financing is at risk of that performance. This is a powerful incentive for the private partner to be proactive in maximizing the objective of the public party (which is to ensure that the infrastructure is available and adequately operated and/or maintained). The private finance also incentivizes the private partner to manage whole-of-life costs (over the lifecycle of the asset). This means that, after meeting operating costs, the private partner has sufficient revenue to service its debt and provide a return to its investors. Ref: Sec 1.2, Box 1.5

8 OV0113 - Overview

B

Recall the definition of Procurement Decision

1. Incorrect. (2) The Procurement Decision includes what is the best way of buying the project. Does the PPP procurement offer better value for money than the best practicable public sector delivery model? Ref: Glossary
2. Correct. (1) The "Green Light" decision is a decision by the authority to proceed with procurement of the project. It is usually made at the end of the Appraisal phase, subject to confirmation after finalising the structure and drafting of the whole tender package. Ref: Glossary
3. Incorrect. See rationales A and B
4. Incorrect. See rationales A and B

9 OV0240 - Overview

A

Understand the influences on the approach to documenting and implementing a PPP framework in different jurisdictions

a) Correct. Those countries with a civil law tradition will tend to rely significantly on laws. Ref: Sec 9
b) Incorrect. Those countries with a common law tradition will tend to rely on policy statements. Ref: Sec 9
c) Incorrect. PPP's require a programmatic approach – and this requires a framework. This applies to both common law and civil countries and the latter will tend to rely on the law. Ref: Sec 9
d) Incorrect. The paramount factor that influences relevant differences, especially in terms of a PPP framework, is the legal tradition. Ref: Sec 9

10 OV0208.1 - Overview

A

Understand the contracts for managing services or existing infrastructure which may be considered as PPPs

a) Correct. (4) No contract should be regarded as a PPP when the revenue of the private counterparty is on a cost plus basis, reflecting the actual costs incurred rather than preagreed amounts. Payment on this basis transfers little, if any, risk. Ref: Sec 2.3
b) Incorrect. (3) While there is not a universal consensus about when one may properly talk about long term, contracts below 5 years are generally referred to as short term. For service management or maintenance, 2-4 years are not long enough to merit the concept of PPP as those terms do not allow for a proper transfer of risk associated with costs and results. 10 years is commonly regarded as long term, but 7 years and above may be regarded as a sufficient term for these types of contracts to be regarded as PPPs. Sec 2.3
c) Incorrect. (2) Contracts whose scope is only maintaining or operating infrastructure or a service may be regarded as PPPs (in the broad sense or according to the broad definition proposed by the BoK), as long as they transfer significant risks, are performance oriented and have relatively long terms. Sec 2.3
d) Incorrect. (1) Contracts whose scope is only maintaining or operating infrastructure or a service may be regarded as PPPs (in the broad sense or according to the broad definition proposed by the Guide), as long as they transfer significant risks, are performance oriented and have relatively long terms. Sec 2.3

11 OV0229 - Overview

D

Understand the role of the Multilateral Development Banks

a) Incorrect. MDBs may provide guarantee facilities or specific guarantees against political risks to commercial banks and investors. Ref: Sec 7.2.3
b) Incorrect. MDBs provide policy advice to strengthen the policy and PPP framework. Ref: Sec 7.2.3
c) Incorrect. MDBs provide support in identification and selection of projects. Ref: Sec 7.2.3
d) Correct. The MDBs provide financing usually on longer not shorter terms than commercial lenders. Ref: Sec 7.2.3

12 OV0226 - Overview

B

Understand the main categories/instruments of funds, their providers and main features

a) Incorrect. Export Credit Agencies (ECAs) are usually a source of debt financing, guarantees and insurance products. Ref: Sec 7.2.1, Table 1.6
b) Correct. Initial Public Offerings (IPOs) are used to raise equity (capital shares). Ref: Sec 7.2.1, Table 1.6
c) Incorrect. Miniperms are a type of debt finance. Ref: Sec 7.2.1, Table 1.6
d) Incorrect. Grant financing is the provision of payments by the government that partially compensate the private partner for construction work costs. Ref: Sec 7.3