Public-private partnerships (PPPs): Are they the right tools for development?

María José Romero, Eurodad

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Presentation structure

1. Context
2. What are PPPs?
3. Rationale
4. PPP supporters
5. Main trends
6. Potential advantages of PPPs
7. Potential problems of PPPs
8. Concluding remarks

1. Context

- The landscape of development finance has been changed dramatically over the last decade:

    - ODA and other official flows represent a declining share of financial flows to developing countries
    - Private finance has replaced aid at the centre of global and donor development initiatives
    - New modalities of delivering aid and of supporting development projects are being promoted
    - Public finance is expected to catalyse private investments to generate growth and deliver public services

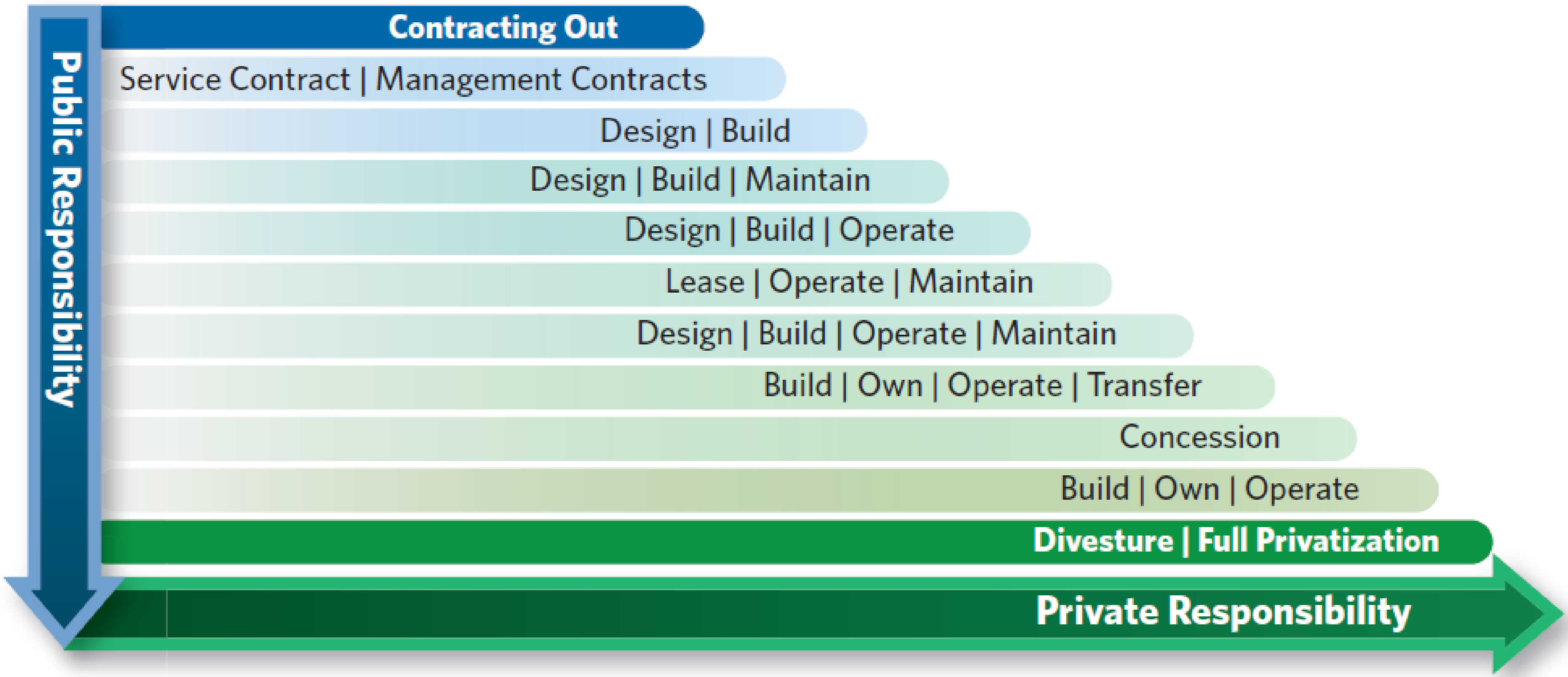
- Private financial flows have many problems and public finance has a special role to play

2. What are PPPs? (I)

- "Contractual arrangements whereby the private sector provides infrastructure assets and services that traditionally have been provided by government, such as hospitals, schools, prisons, roads, bridges, tunnels, railways, and water and sanitation plants."
- There is no one single definition of a PPP and it is a contextual concept. However, PPPs should involve a risk sharing between the public and the private sector.
- The private sector assumes funding responsibilities and gets paid over a number of years, either through charges paid by users or by payments from the public authority.

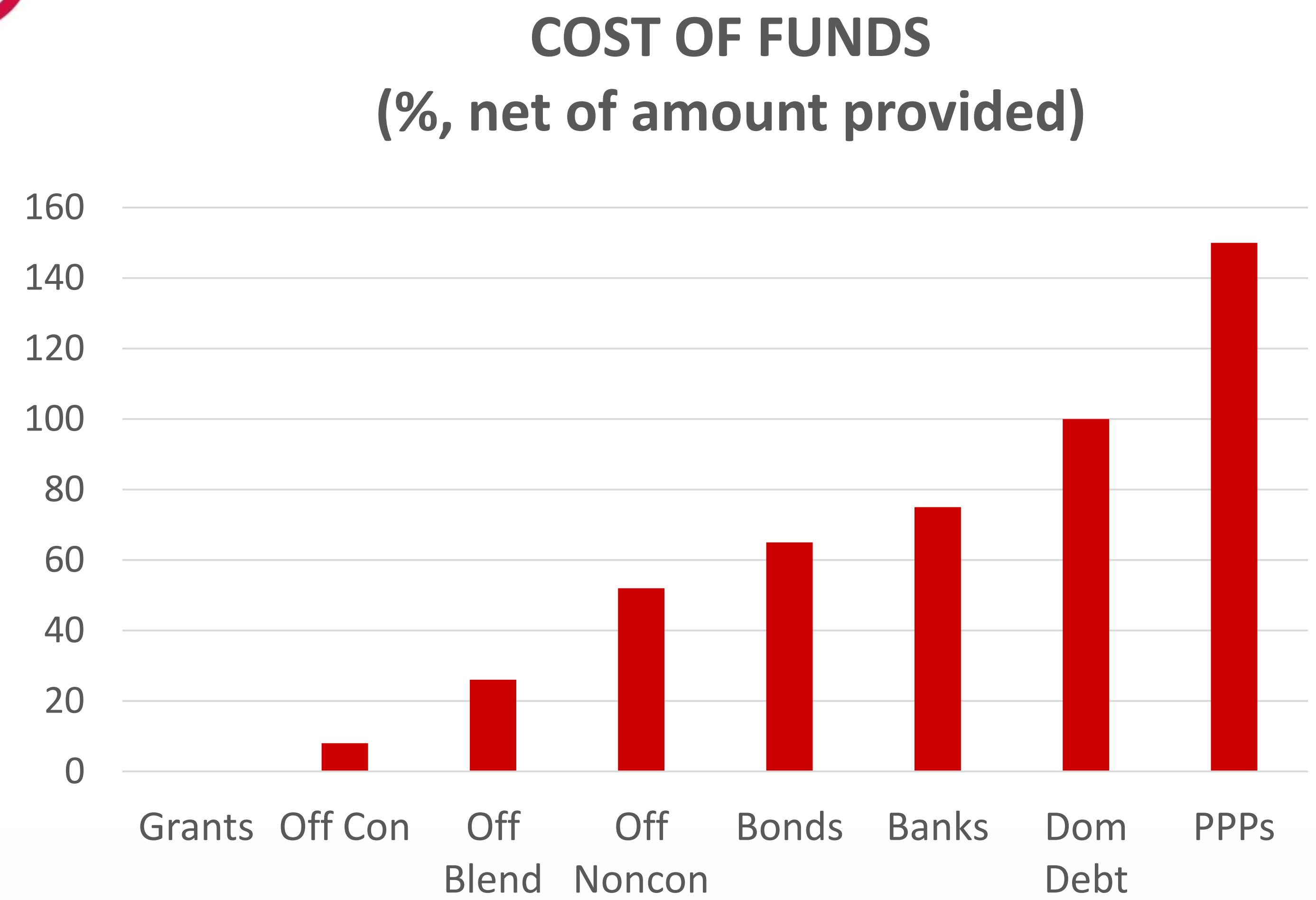
2. What are PPPs? (II)

Public-Private partnerships continuum



3. Rationale of the PPP

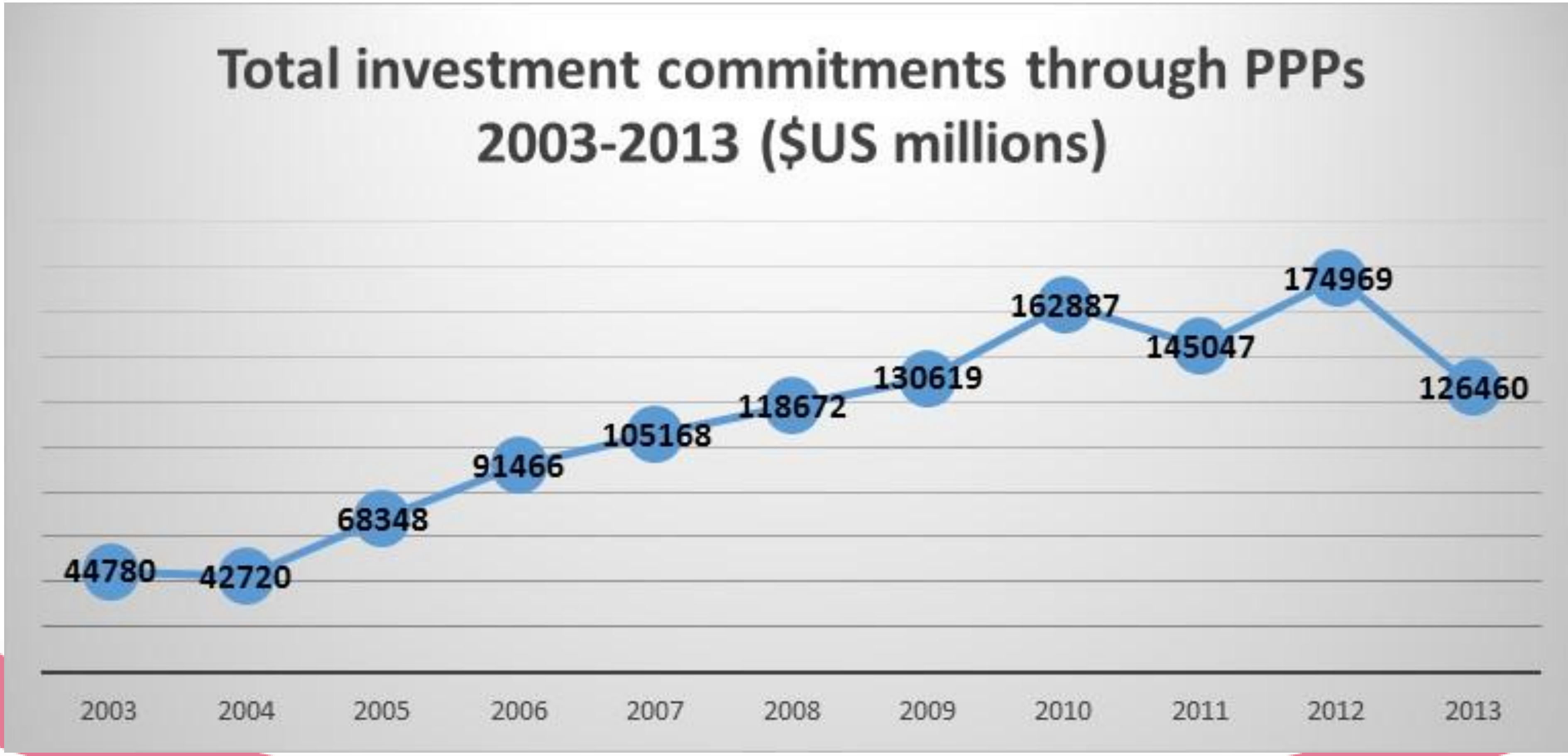
- In theory, PPPs can be considered a preferred option when market and/or institutional failures exist that prevent the delivery of goods and services.
- However, in practice, most PPPs are motivated for financial reasons in order to mobilise additional resources that enable the execution of large public programs.
- Today austerity policies constrain governments, thus in order to build infrastructure PPPs remain an attractive way of concealing the long-term public liabilities -> this results in a very expensive contradiction.


COST OF FUNDS
(%, net of amount provided)
160
140
120
100
80
60
40
20
0
Grants
Off Con
Off Blend
Off Noncon
Bonds
Banks
Dom Debt
PPPs

4. PPP supporters

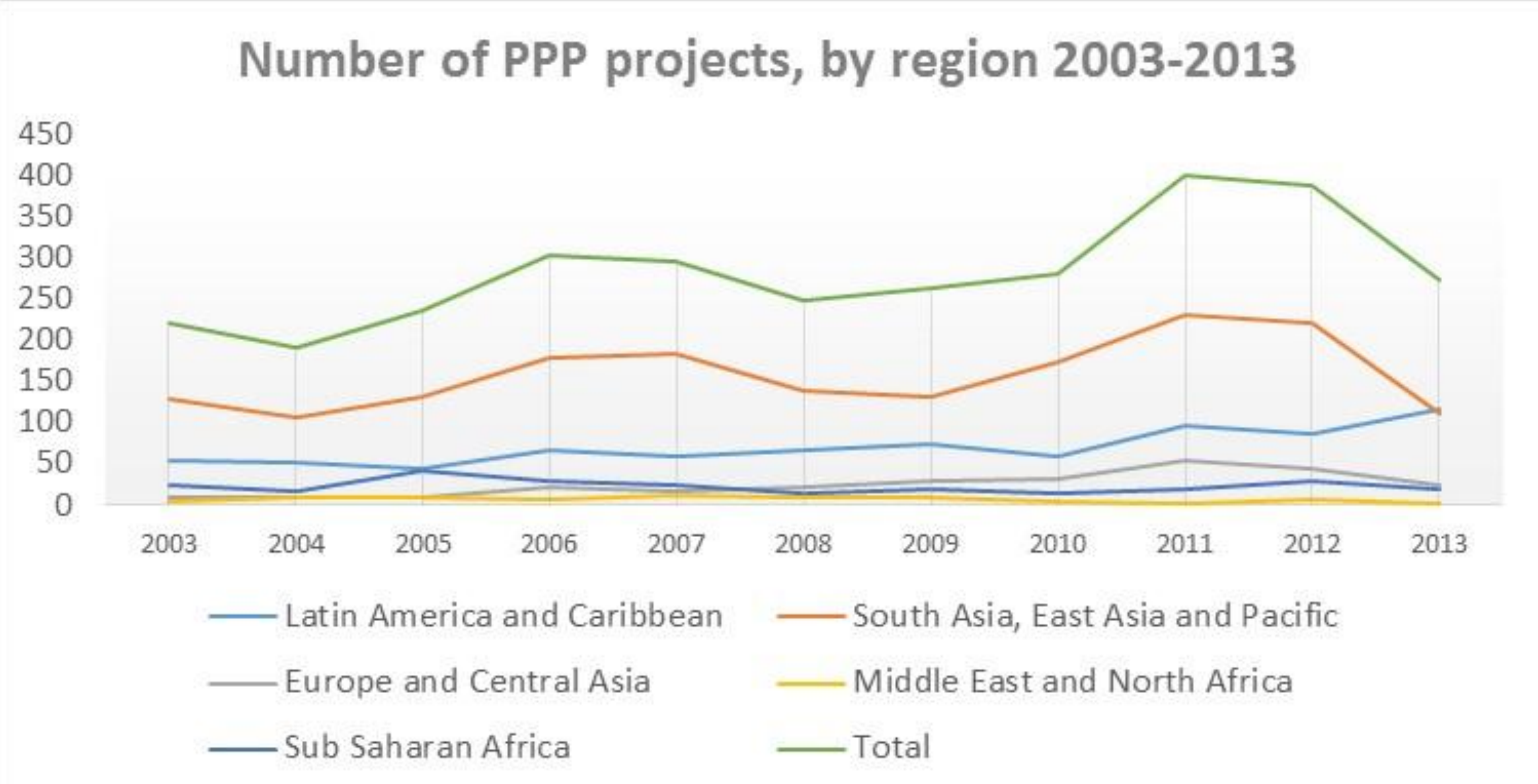
Institution & Initiatives
World Bank Group, including IBRD, IDA and IFC
Public-Private Infrastructure Advisory Facility (WB Group)
African Development Bank
Asian Development Bank
Inter Americas Development Bank
European Union (EU project bonds)
European Bank for Reconstruction and Development
European Investment Bank (European PPP Expertise Centre)
United Nations Economic Commission for Europe
United Nations Development Programme (PPPs for service delivery)
World Economic Forum (Strategic PPPs)
G20 (Investments and infrastructure)
OECD
Consultants - McKinsey, PWC, Deloitte, KPMG, E&Y

5. Main trends (I)

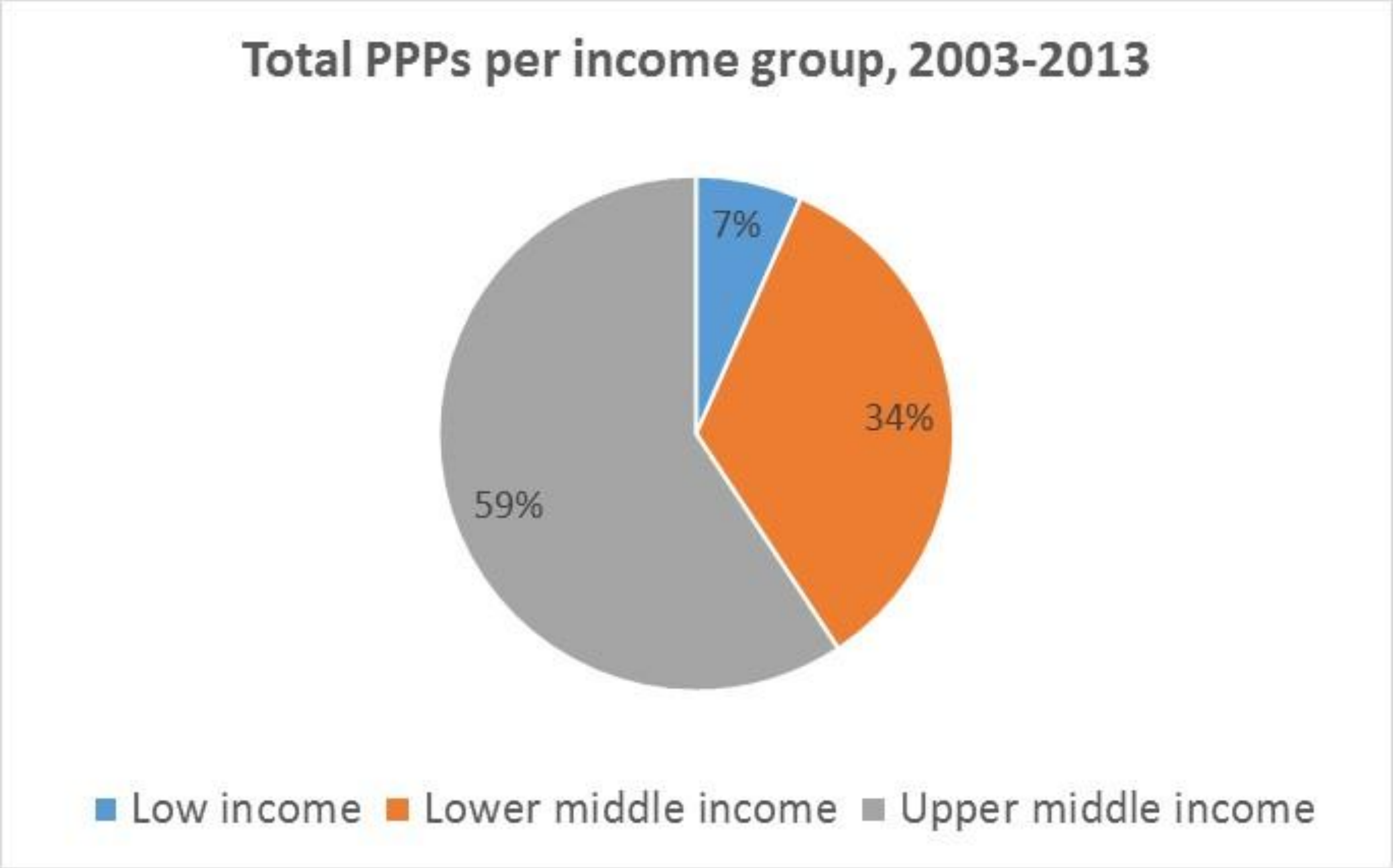


Source: “Public Participation in Infrastructure Projects Database”

5. Main trends (II)

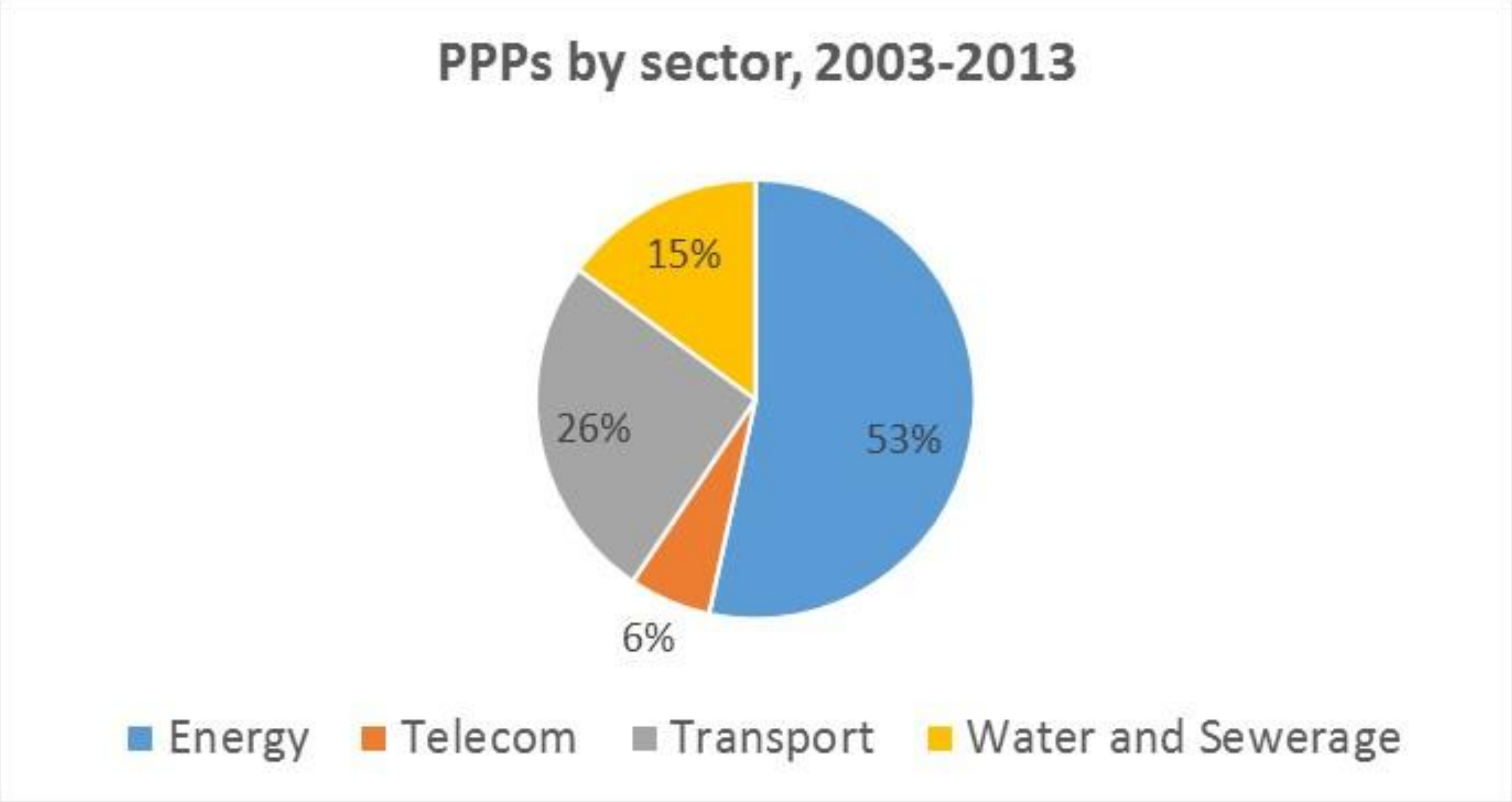


5. Main trends (III)



Source: “Public Participation in Infrastructure Projects Database”

5. Main trends (IV)



Source: “Public Participation in Infrastructure Projects Database”

6. Potential benefits of PPPs

- Value for money
- Optimisation of the design and operation
- Quicker delivery of projects and improved service delivery
- Whole of life cycle approach
- Risk transfer
- Increased investment in infrastructure
- Increased budget/financing certainty
- Access to additional capital/off-balance sheet financing
- Political advantage
- Private sector growth and stability

7. Potential problems of PPP

- Higher costs
- High risk financing
- Reduced competitiveness
- Complicated and lengthy tender process
- Lack of capacity
- Rigid/inflexible/long contracts
- Delays and holdups
- Higher consumer prices
- “Double taxation”
- Weak evidence of development outcomes, effectiveness and focus on the poor
- Less accountability and transparency

8. Concluding remarks

- Figures of PPPs in the 2000s were impressive
- The majority of PPPs projects have taken place in relatively richer developing countries
- If properly designed and implemented PPPs could entail potential benefits
- But, given the high complexity and the risks attached to PPPs, they should be approached cautiously
- PPPs should be only considered if other less expensive and risky financing options are not available
- Careful design, implementation and monitoring is needed to make them fit for development
- Effective regulatory and safeguard policies should be in place