






**WORLD BANK GROUP**

# Developing Public-Private Partnerships













ADVANCED INTER-AMERICAN PROGRAM ON  
 POLICY INNOVATION AND MANAGEMENT – AIPIM 2015  
 June 22-26, 2015  
 Washington-DC, USA

**Advanced Inter-American Program  
 on Policy Innovation & Management**  
 June 23, 2015, Washington DC

**Rui Monteiro**  
 WB PPP Group

## Objectives of the PPP CCSA

 Overall	More and better PPP projects, especially in IDA countries Reduce "cost of doing business" on PPPs with WBG
 Leadership & Coordination	Improve incentives and collaboration
 Country Engagement	Provide expertise, tools to support CMUs, GPs, MIGA, and IFC
 Global Leadership	Develop global public goods and convene stakeholders to advance agenda
 Knowledge & Innovation	Create vibrant WBG hub for knowledge, innovation and learning

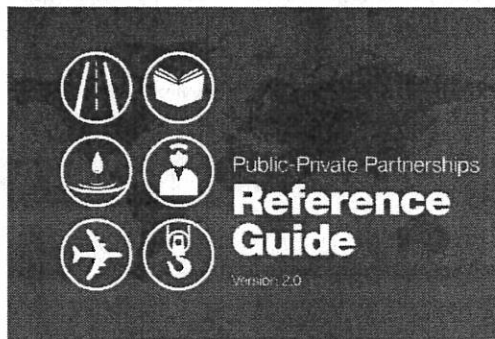
# Knowledge creation and sharing

**PPP Reference Guide**  
jointly developed by:

- World Bank Group
- Asian Development Bank
- Inter-American Development Bank

**PPP Knowledge Lab**

- Together with other MDBs
- Global knowledge platform for PPPs
- Launched last week

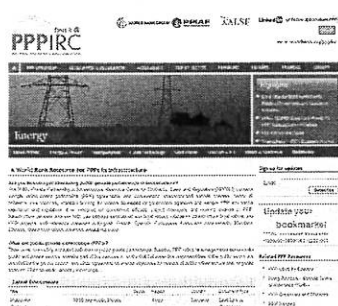


**PPP Knowledge Lab**  
resources to help understand, prepare and implement public-private partnerships

<https://www.pppknowledgelab.org/>



**PPPIRC**  
([www.pppirc.worldbank.org](http://www.pppirc.worldbank.org))



PPP Laws and PPP contracts

PPP studies

Handshake thematic publications

PPI projects database



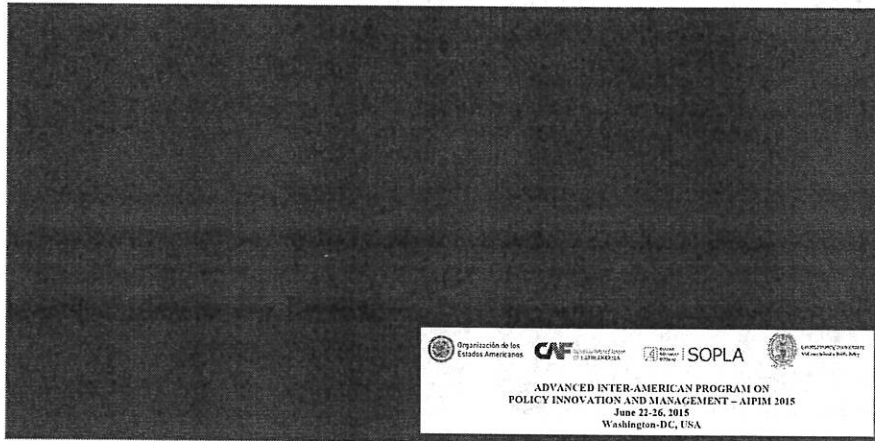
**PPIAF**  
([www.ppiaf.org](http://www.ppiaf.org))



([www.ppi.worldbank.org](http://www.ppi.worldbank.org))



## What are PPPs



 WORLD BANK GROUP

## Public-private partnerships are ...

... long-term contracts where the private sector supplies infrastructure assets and services that traditionally have been provided by the government

- Main characteristics:
  - Long term (25, 30, or more years, are common)
  - Private execution and financing of public investment
  - Joint contracting of design, construction and maintenance
  - Risk transfer to private sector (performance-based contract)
  - Sometimes, the full operation of the infrastructure
- Who pays for the contract?
  - Government-funded (e.g. availability payments), or
  - User-funded (e.g. user fees, tolls), or
  - Combination of both

## What is a PPP?

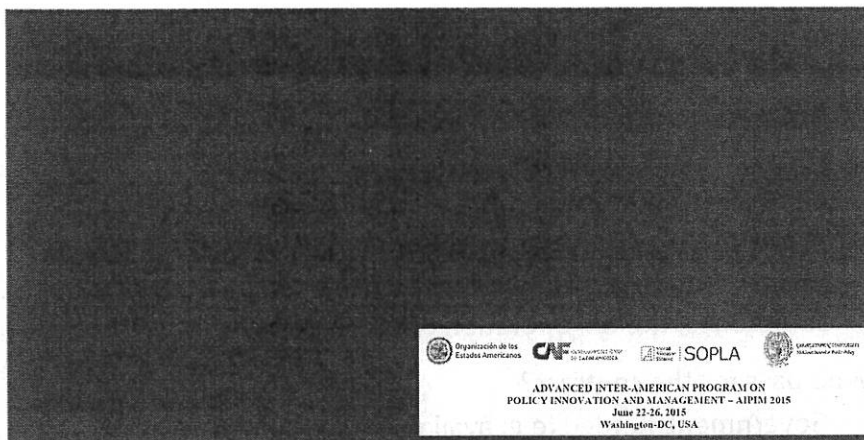
PPPs are long-term contractual relationships between a public sector entity and a private sector entity

The private partner commits itself to providing a set of services according to some specified performance levels

The public partner monitors the performance and pays the services or grants the private partner the right to collect fees from users



## Why PPPs



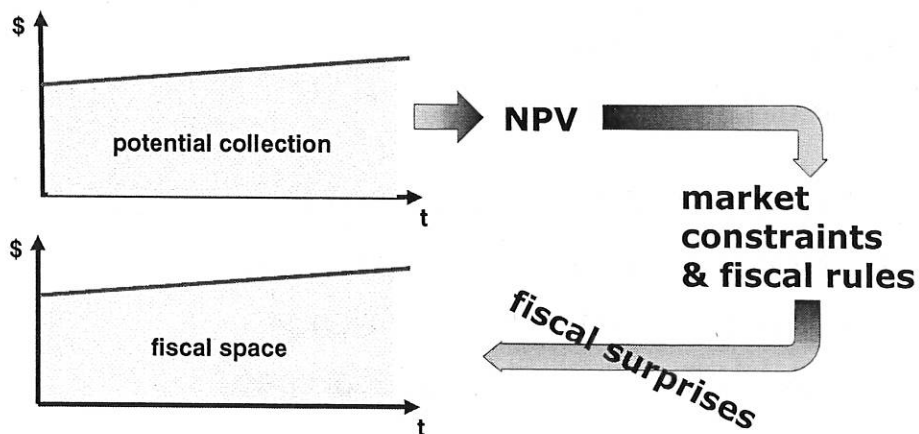
## Rationale for PPPs

Main reasons presented by decision-makers for procuring PPPs:

- “creating fiscal space” (“bridging the gap”)
- “transferring risk to private partners”
- “introducing efficiency”
- “accelerating infrastructure plans”
- “introducing innovation”



## Bringing private finance, managing fiscal space



## **Transferring (some) risks to private partners**

What do we know about risk:

- Risk aversion
- Capacity for coping with risk
- Ability to pool risks
- "allocating risk to the parties best able to manage it"

What do we know about PPPs:

- SPVs
- Private finance, typically under project finance

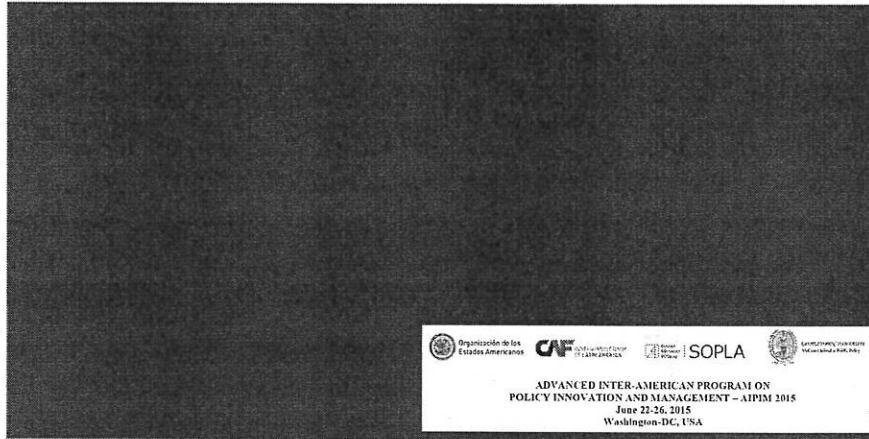


## **Efficiency in the provision of infrastructure and services**

- Incentive mechanisms
- Credible commitment
- Efficiency savings compensating for capital cost
- Risk transfer for incentive, not as a goal
- Fiscal space coming from efficiency
- Lack of efficiency reducing fiscal space

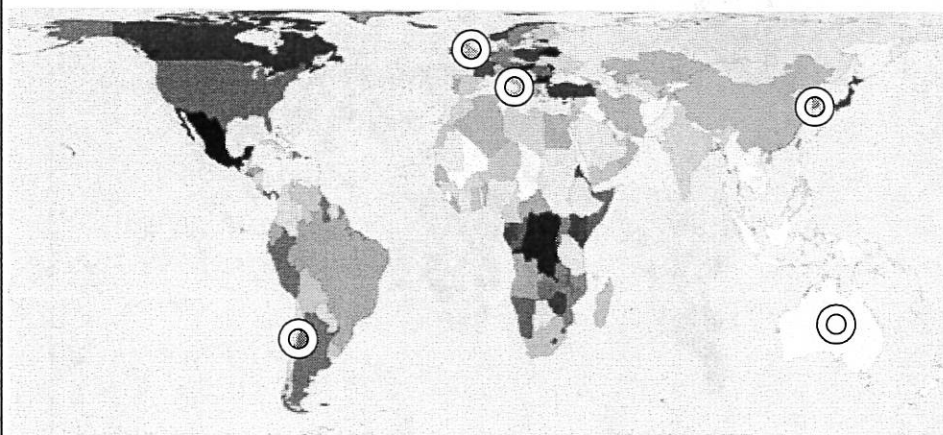


# PPP, one among several procurement modes



 WORLD BANK GROUP

# Initial PPP experience: 1990s

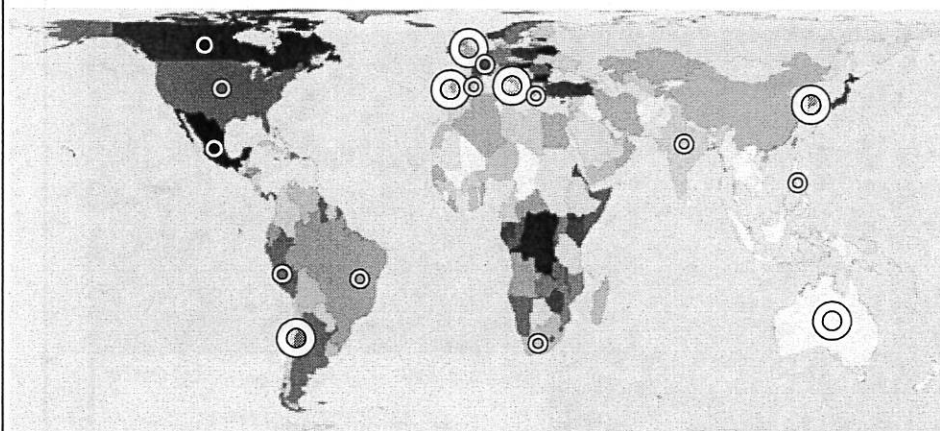


Worldmapper.org

© Copyright SASI Group (University of Sheffield) and Mark Newman (University of Michigan)

 WORLD BANK GROUP

## Initial PPP experience: 2000s

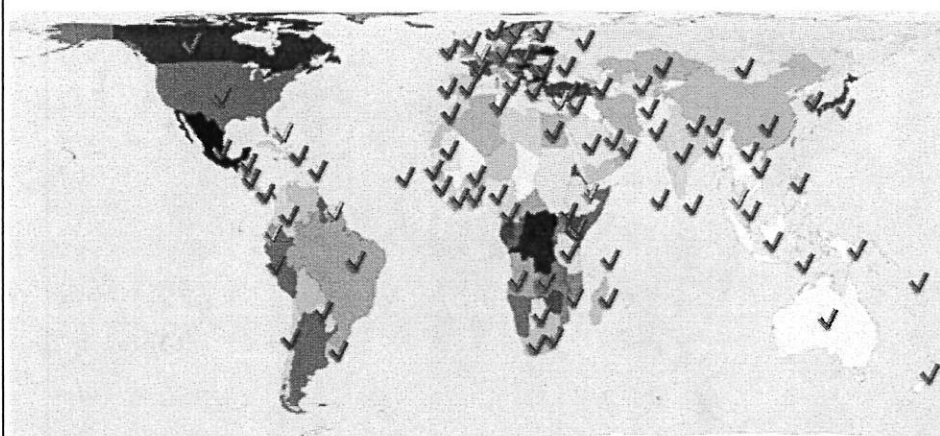


Worldmapper.org

© Copyright SASI Group (University of Sheffield) and Mark Newman (University of Michigan)

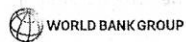


## Current PPP experience: 2015



Worldmapper.org

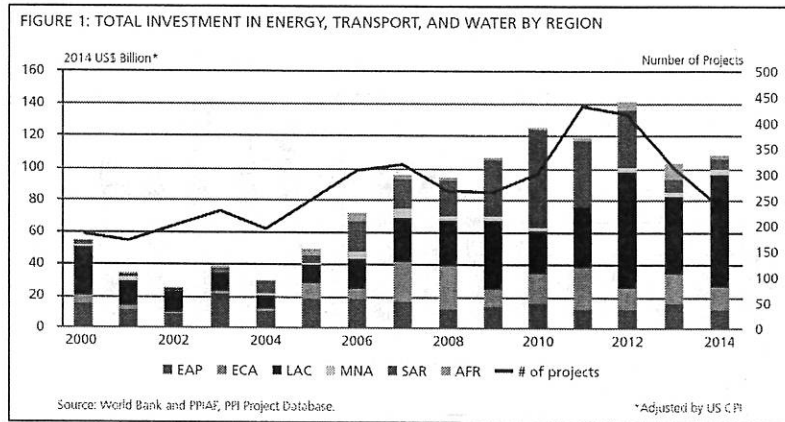
© Copyright SASI Group (University of Sheffield) and Mark Newman (University of Michigan)





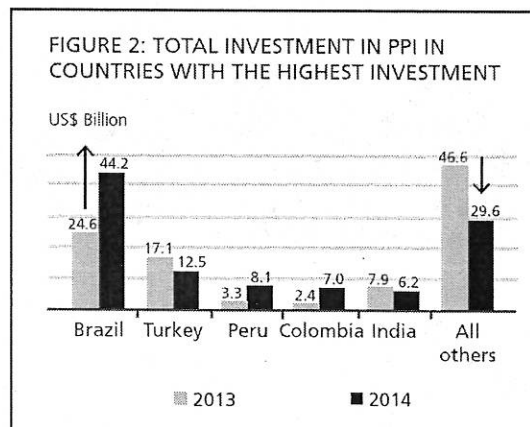
# Global PPI Data

## Private Investment in Infrastructure in Low and Middle Income Countries (by region)



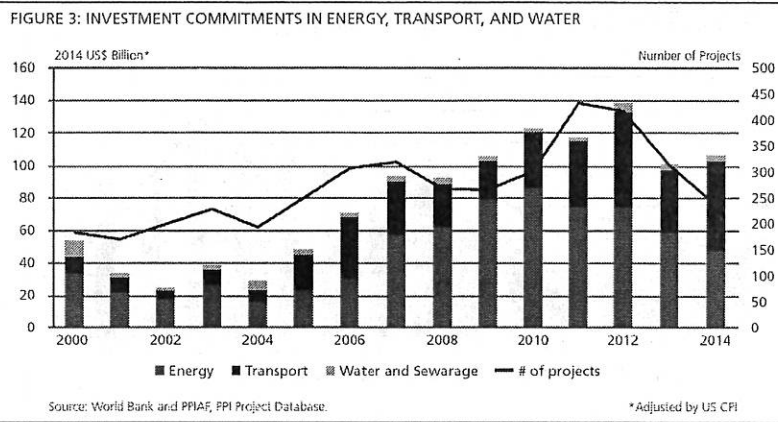
# Global PPI Data

## Private Investment in Infrastructure in Low and Middle Income Countries (main countries)

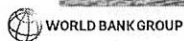
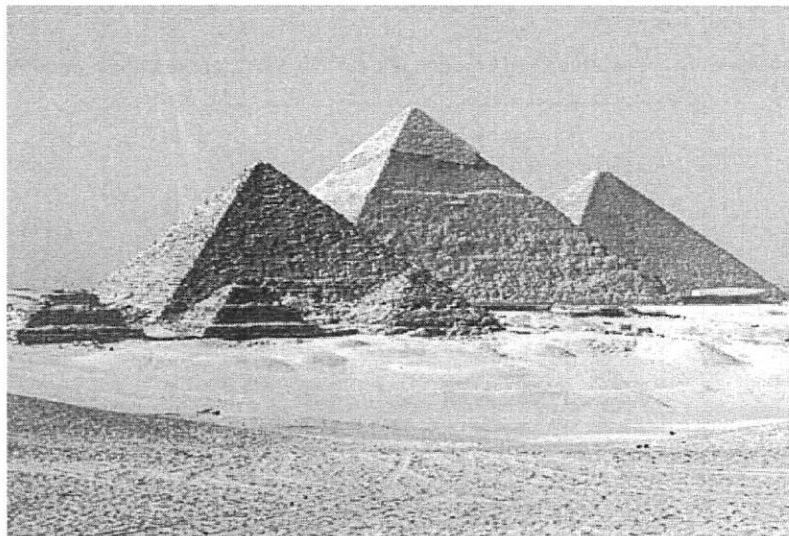


# Global PPI Data

## Private Investment in Infrastructure in Low and Middle Income Countries (by sector)




# Ancient PPPs in Giza...



## Paris bridges

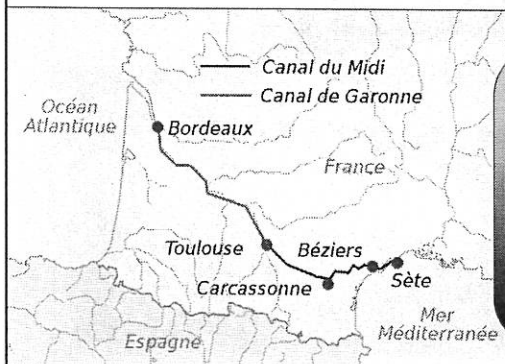


 WORLD BANK GROUP

2

## Case: Canal du Midi / Garonne

“mettre en risque mon bien et mon honneur à défaut de réussite et, par contre-coup, acquérant un peu de l'un et un peu de l'autre, en cas que j'en sorte heureusement”



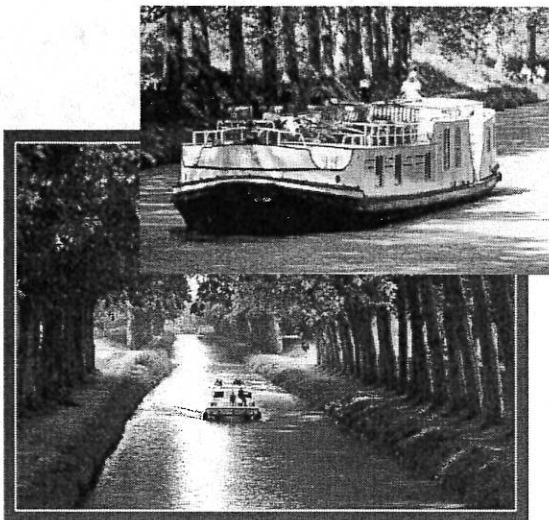
Riquet, a local tax collector, presented to Louis XIV this unsolicited proposal: building a canal connecting the Atlantic Ocean to the Mediterranean at no cost to the taxpayer or royal purse

2

## Case: Canal du Midi / Garonne

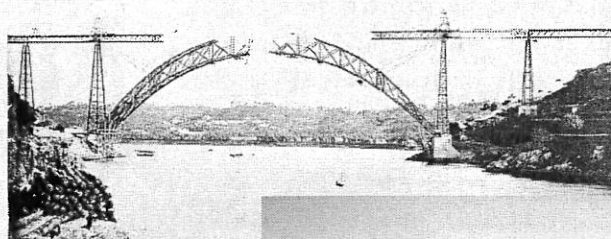
Riquet was awarded a perpetual concession in 1666, with the right to collect a special purpose new tax.

The canal, built in 1666-1683, was a success, but the public partner paid **two thirds** of its cost.

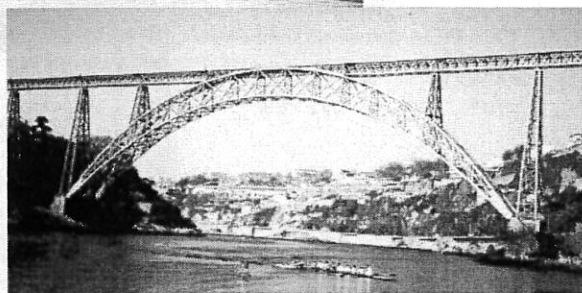



 WORLD BANK GROUP

## Rail in Continental Europe



demand  
based



 WORLD BANK GROUP

## Roads in Continental Europe



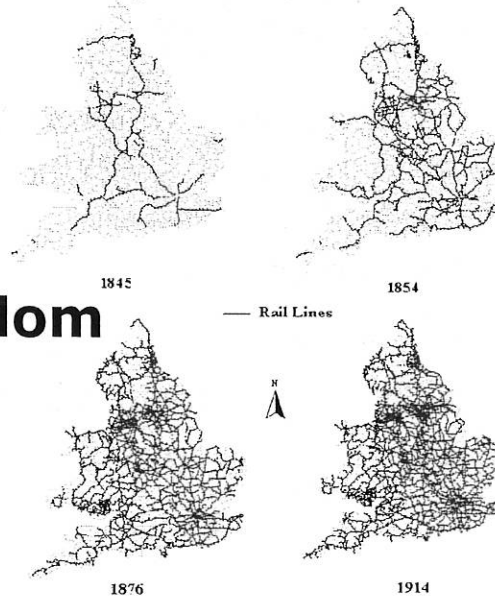
availability based



24

## Railways in the United Kingdom

The Extension of the Railway System in England and Wales, 1845-1914



24

## London's Bloomsbury



 WORLD BANK GROUP

21

## What do we know about those PPPs?

Over the long term, ancient PPPs were effective procurement modes, providing efficient delivery, but with some fiscal issues

- rapid implementation
- often innovation
- long term: "privatizing benefits, socializing losses"
- seldom no service to poorest users (e.g. water)

 WORLD BANK GROUP

22

## Why do we expect current PPP to perform better?

Current PPPs are expected to perform better than ancient PPPs because of:

- larger and less concentrated financial markets
- more competitive procurement
- better risk allocation (from project finance)

But we still need to improve:

- project selection and prioritization
- procurement and contract management
- PPP fiscal management



WORLD BANK GROUP

29

## Efficiency, sustainability

Experience has demonstrated PPP **effectiveness** for

- the rapid development of infrastructure
- the reaching of productive efficiency
- the improvement of service to end-users

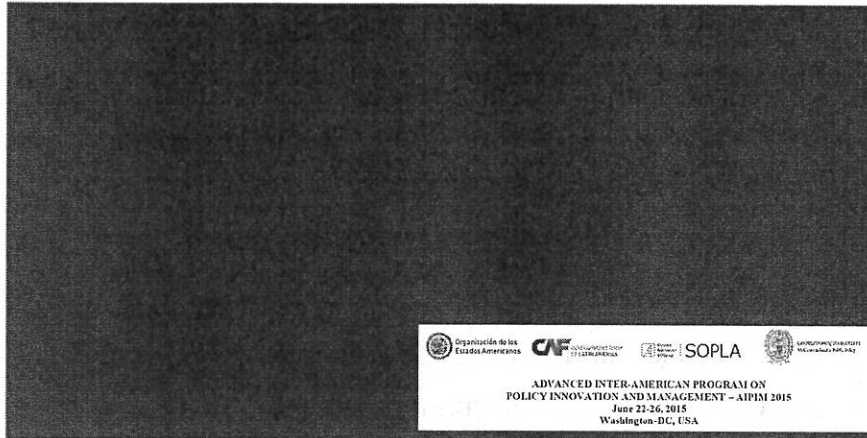
**Efficiency** (from the viewpoint of public finance) and **affordability** will probably require institutional improvements in most countries



WORLD BANK GROUP

31

## Why are PPPs expected to deliver efficiency?

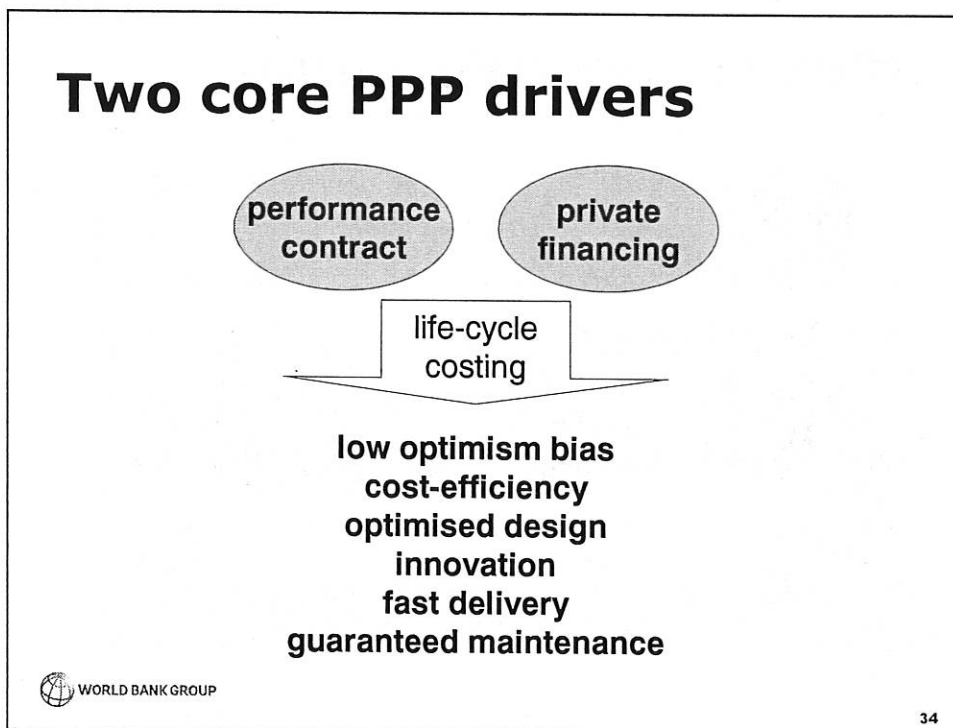
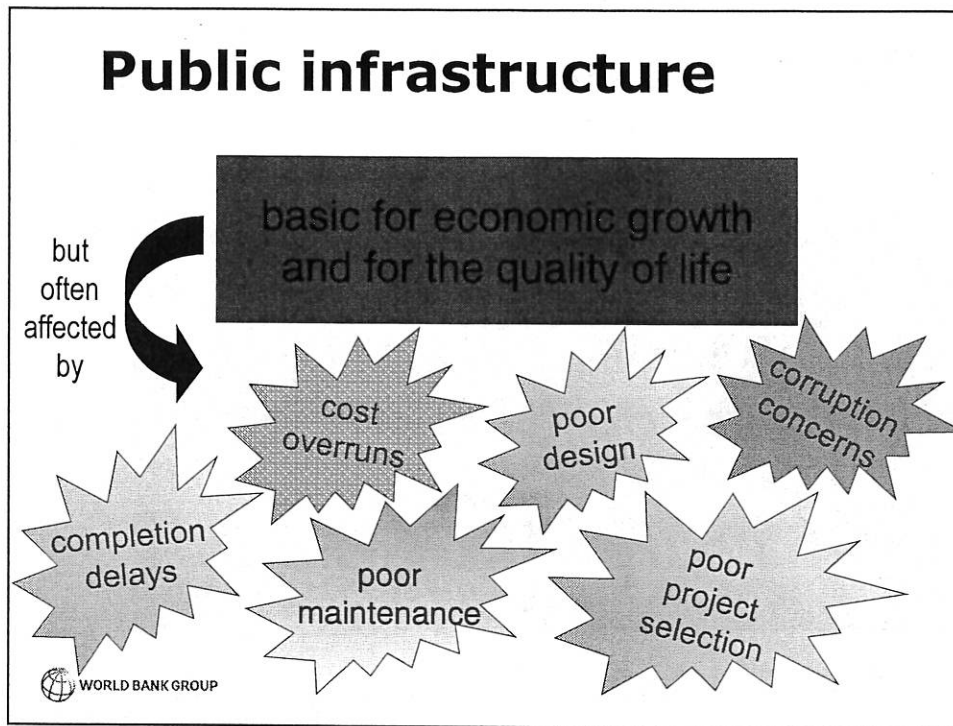


## Specificity of infrastructure projects

Infrastructure projects are just a subset of public projects, but a special one due to their

- sunk costs
- size
- complexity
- long life





## Rationale for PPPs

	Tradit.	D-B	PPP	PPP	PPP	PPP
design of infrastructure	■	■	■	■	■	■
construction of infrastructure	■	■	■	■	■	■
maintenance of infrastructure	■	■	■	■	■	■
provision of equipment	■	■	■	■	■	■
maintenance of equipment	■	■	■	■	■	■
provision intermediate services	■	■	■	■	■	■
provision of services to end-users	■	■	■	■	■	■

} core

requiring private finance

 WORLD BANK GROUP

In each case, services provided according to public sector rules

## PPPs vs. privatizations

### Outsourcing:


- components of public service bought in the market
- short-term contracts

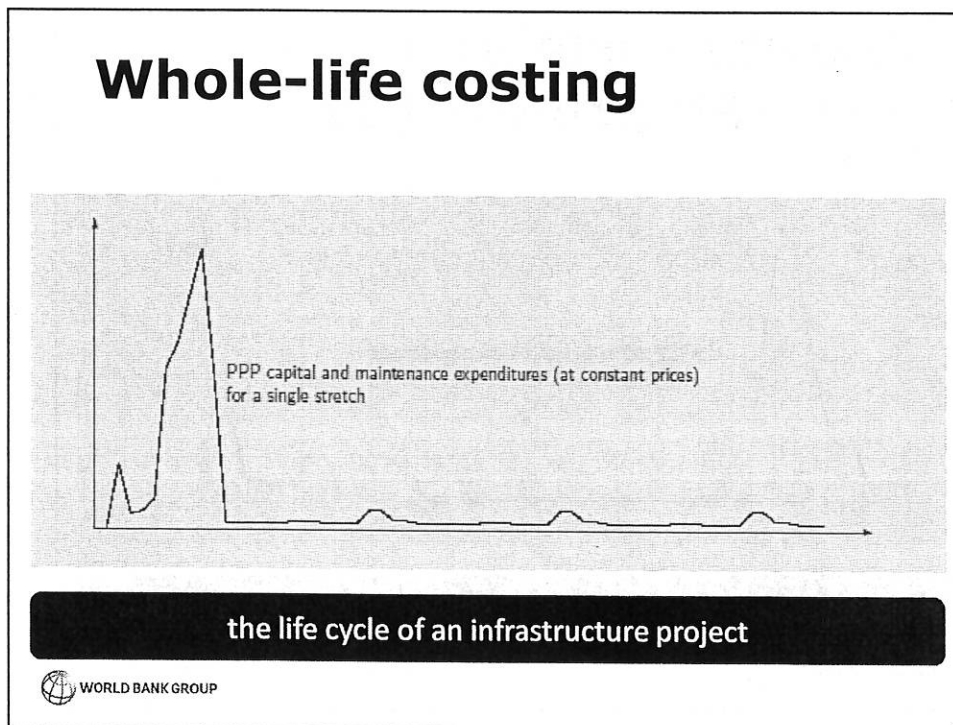
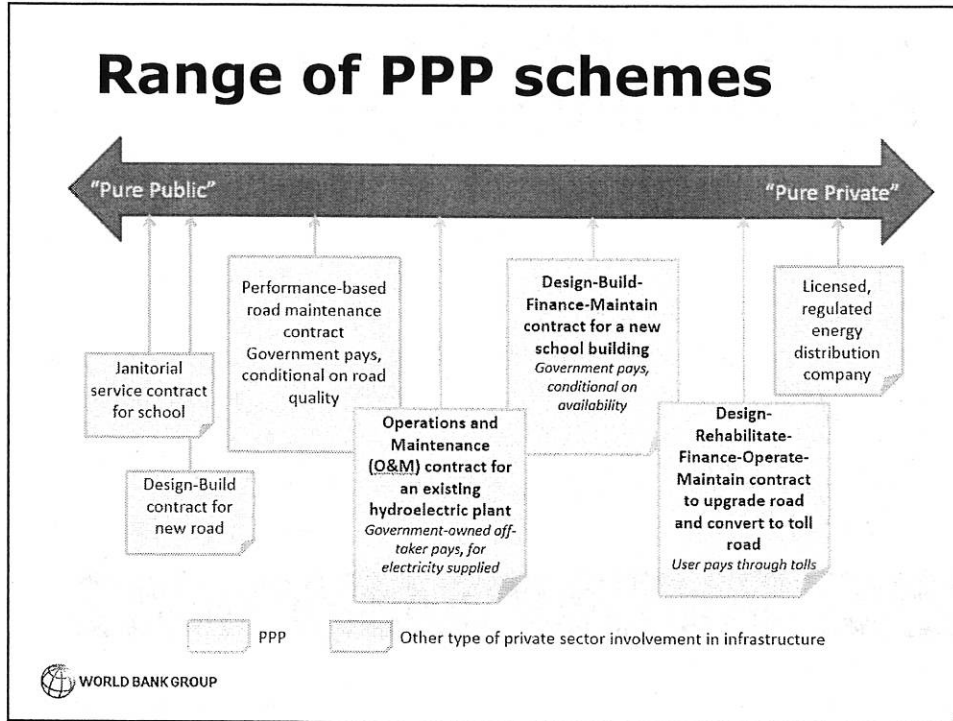
### PPPs:

- public service contracted to a private provider
- medium- or long-term contracts
- public authorities monitor provision

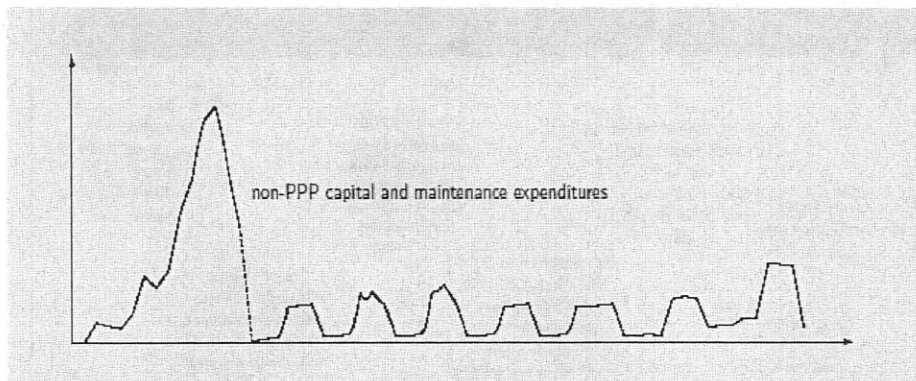
### Privatization:

- responsibility for provision transferred to private partners
- subject to market discipline or a regulator

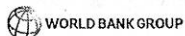
 WORLD BANK GROUP



## The life cycle of a non-PPP project (1)

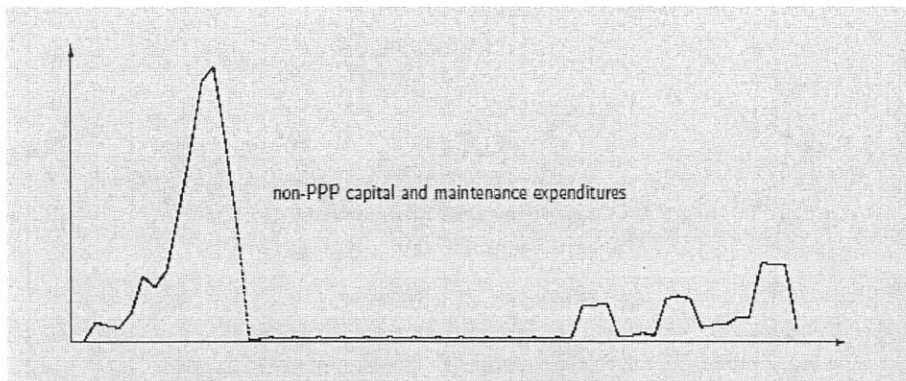


the life cycle of a non-PPP infrastructure project with poor design

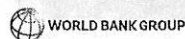


35

## The life cycle of a non-PPP project (2)

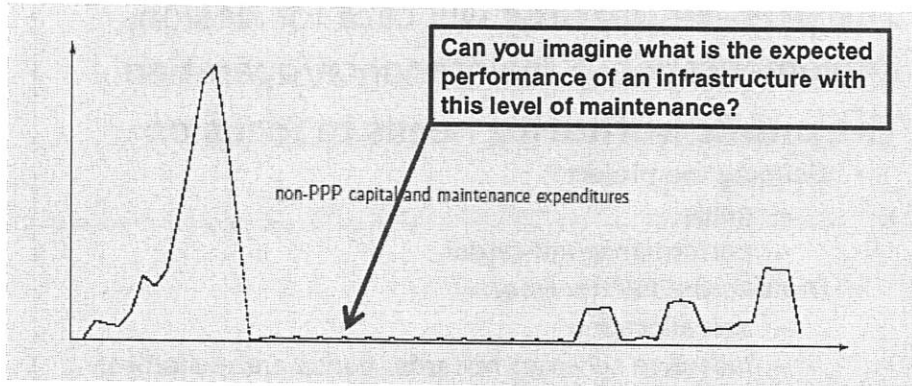


the most probable life cycle of a non-PPP infrastructure project



41

## The life cycle of a non-PPP project (3)

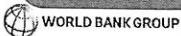
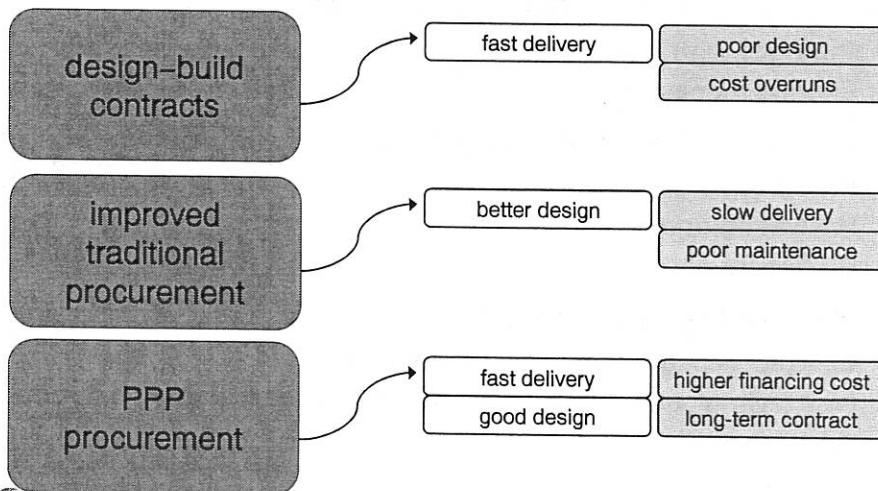


the most probable life cycle of a non-PPP infrastructure project



4

## Usual alternatives



.

## Focussing on outputs, not inputs or processes

The **private partner** will care for design,  
implementation & maintenance/operation

The **public authority** needs to focus on

- Defining the project:
  - goals
  - performance indicators
- Drafting the PPP contract:
  - risk allocation
  - incentive scheme: rewards, bonus and penalties
- Creating institutions and capacity for:
  - procuring the contract under effective competition
  - monitoring project performance



43

## Contract management, a new challenge

Complexity of contract management

- Interface with third parties
- Change management

Contract management capacity:

- Hiring and training
- Motivating and retaining
- Disclosure and transparency

Main sources of inefficiency:

- Contract renegotiation mismanagement
- Fast technological change and obsolescence
- Policy changes



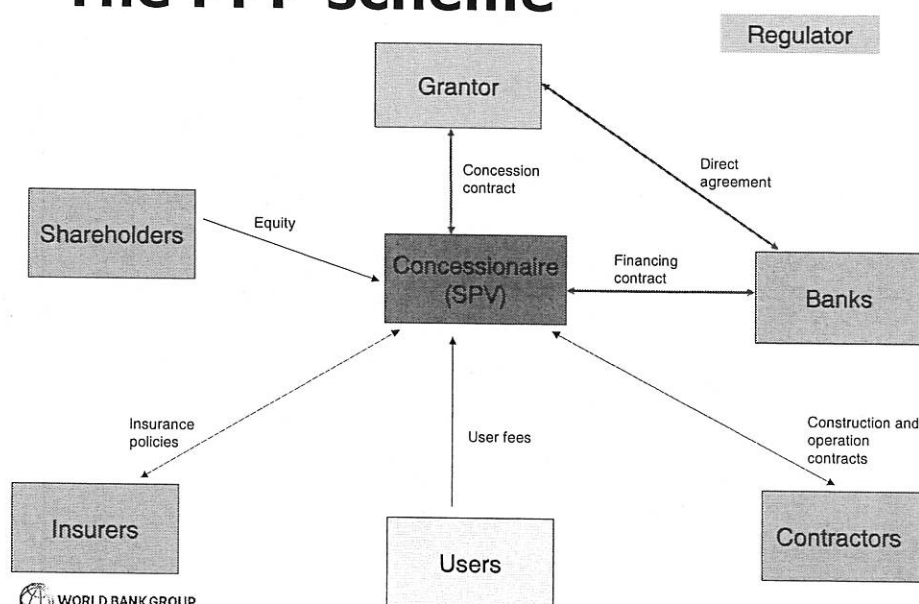
44

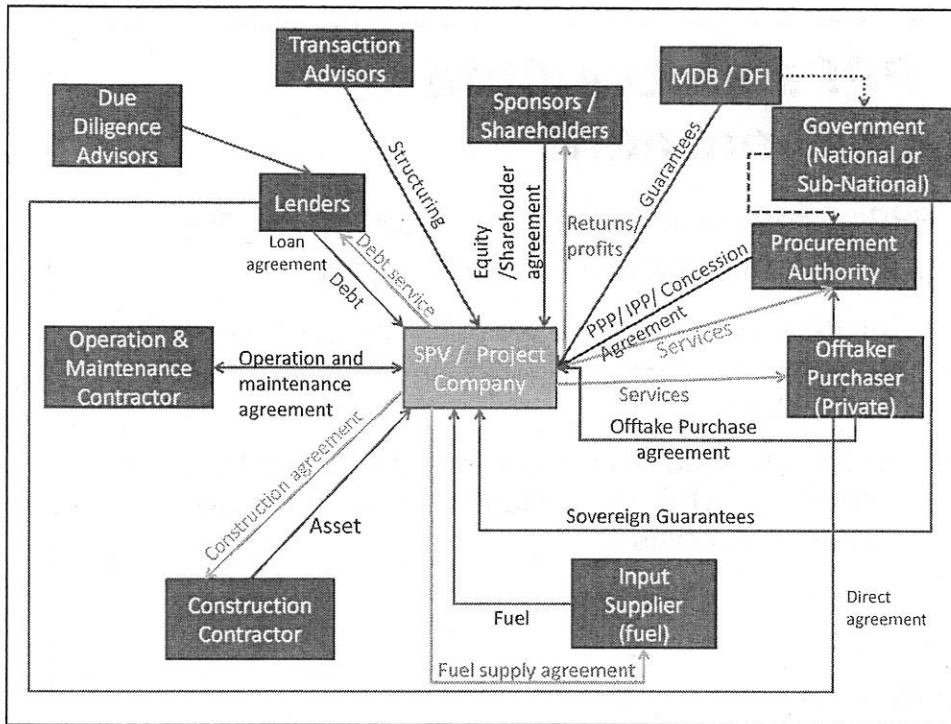
## PPPs as credible commitment

PPPs present a credible commitment for implementing a transport project

- project revenue is dependent on reaching the operational phase, creating a strong incentive for completion
- the private partner starts the project with a full financing scheme, avoiding the usual public finance troubles

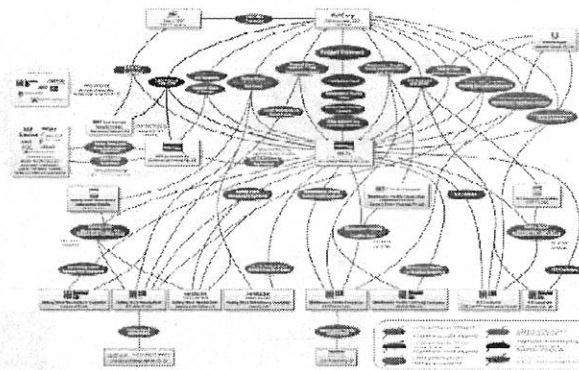
## The PPP scheme





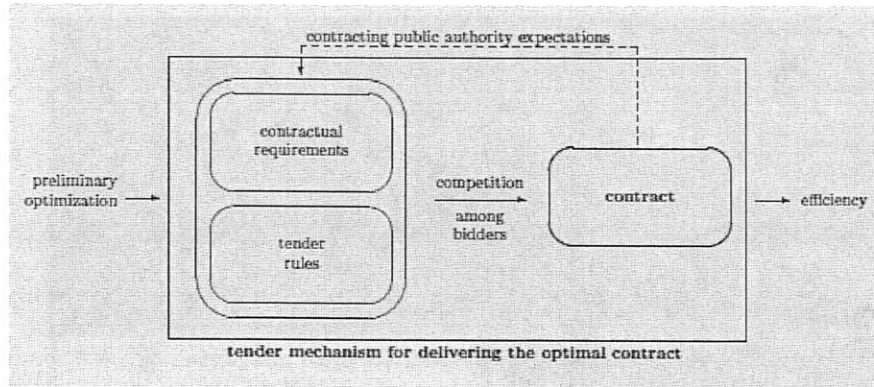
## Or is this the PPP scheme?

Complexity of PPPs



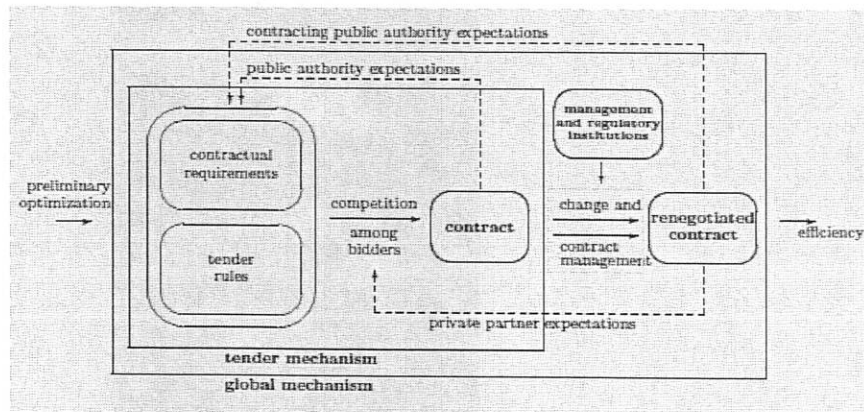


# PPPs as an incentive mechanism (1)



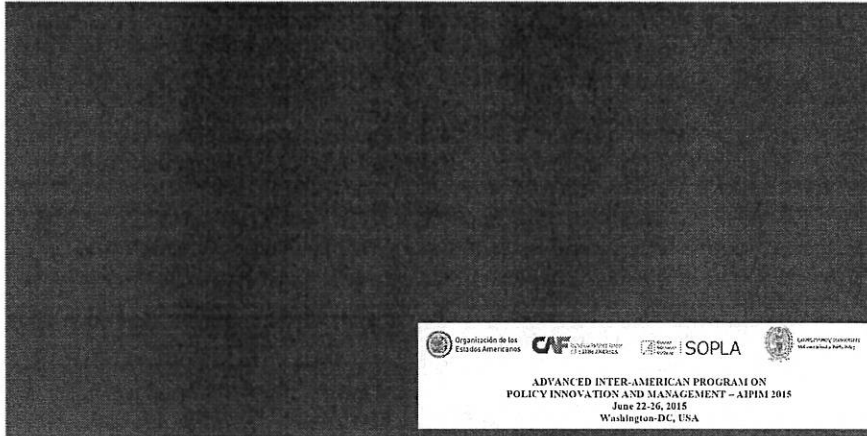
The naïf incentive mechanism

# PPPs as an incentive mechanism (2)



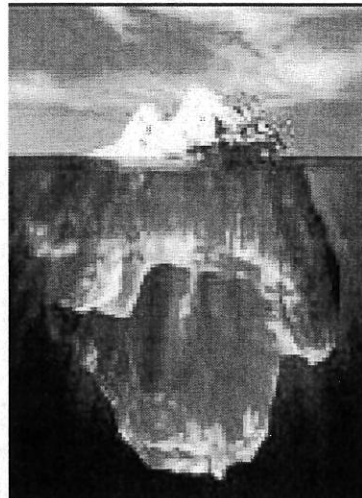
The real global mechanism

# Why do we need to care for PPP fiscal management?



 WORLD BANK GROUP

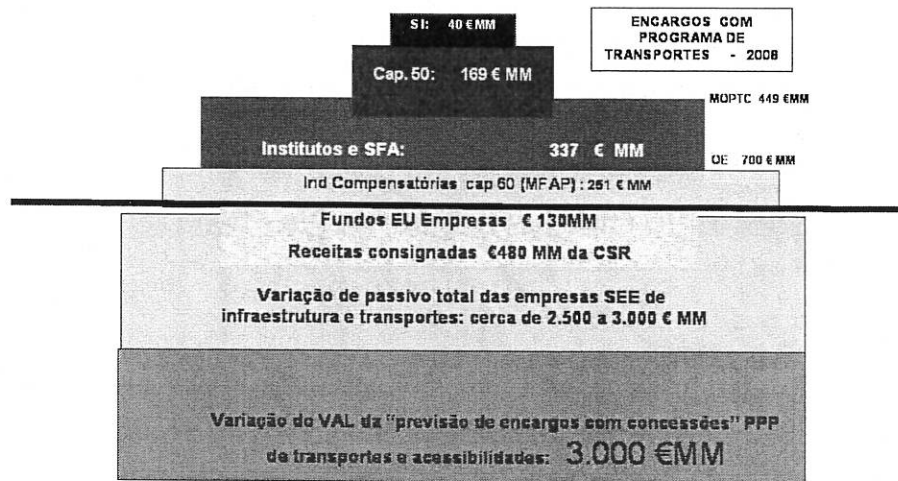
# Fiscal icebergs



 WORLD BANK GROUP

51

## Transport in Portugal: the fiscal iceberg



WORLD BANK GROUP

<http://ppplusofonia.blogspot.com>

54

## Transport in Portugal: the fiscal iceberg

### Translating:

- Transport expenditure (Min. Public Works) €449m
- Transport expenditure (Min. Finance) €251m

Total reported expenditure 2008: €700m

### Net change in assets in transport sector SOE:

- €2,500m to €3,000m

### Net change in (out-of-budget) PPP commitments:

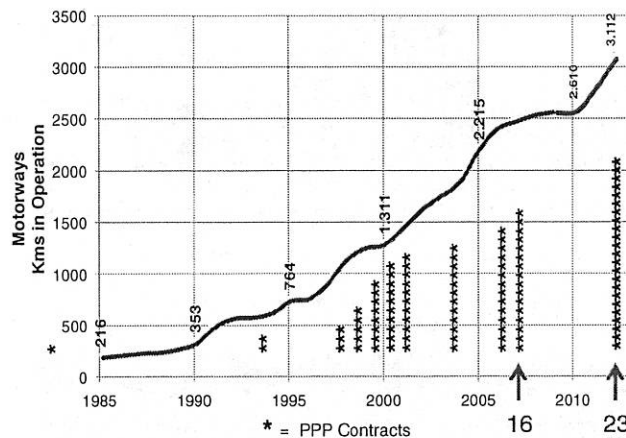
- €3,000m

WORLD BANK GROUP

55

## Portugal: highway PPP development

Highway network developed 100% under PPP schemes

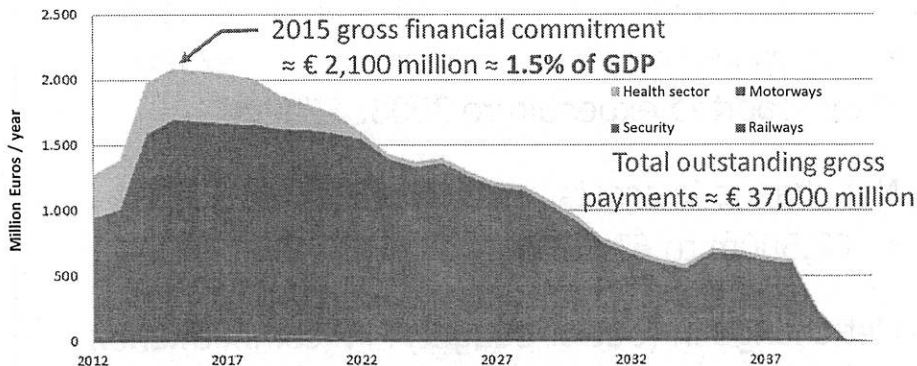


Source: Institute for Mobility and Transports (IMT), quoted by UTAP

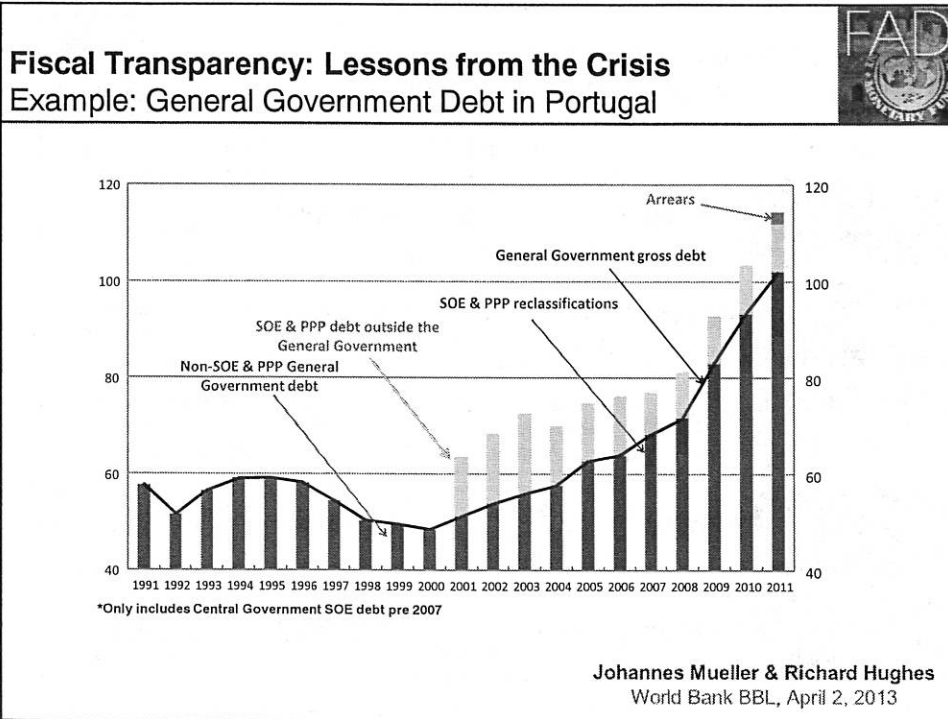
## Portugal: The situation in 2011

2011 debt crisis – strong fiscal sustainability concerns about PPP

- PPP sector “do nothing” scenario unsustainable from a contract lifecycle perspective → need to renegotiate contracts



Source: OE2012, Ministry of Finance



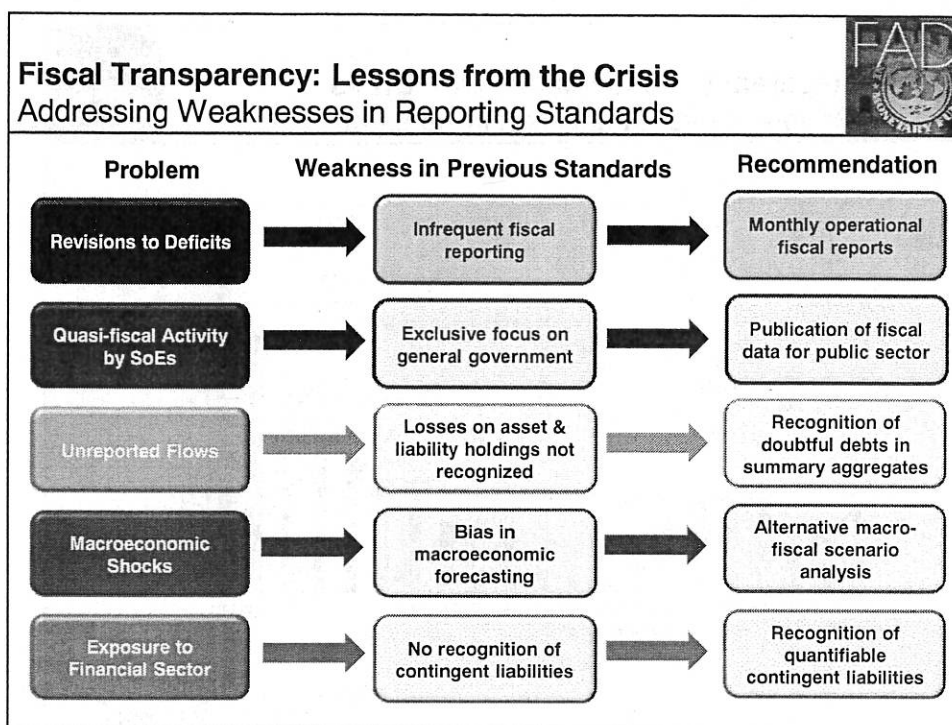
### Fiscal Transparency: Lessons from the Crisis Lack of Transparency Exacerbated Problems

#### Sources of Unexpected Increase in General Government Debt (percent of GDP, 2007-2010)

	FRA	DEU	NLD	ESP	PRT	GBR	USA	GRC	IRL	ISL	AVE*	Issues Revealed by the Crisis
Underlying fiscal position	1.7	3.2	-2.4	1.8	11.3	3.7	8.1	16.3	1.3	10.9	6.0	
Revisions to 2007 deficit & debt	1.7	1.8	-0.9	-0.1	0.1	1.5	7.1	2.5	1.6	4.0	4.7	Unreported Deficits
Changes to government boundary	-0.7	1.4	-0.2	0.6	9.4	1.9	0.9	11.2	-0.1	2.5	1.1	SoEs & PPPs
Cash-accrual adjustments	0.7	0.0	-1.3	1.3	1.7	0.3	0.0	2.6	-0.2	4.5	0.2	Arrears
Exogenous shocks	8.4	12.8	14.2	15.4	8.1	17.0	6.3	40.0	60.2	39.5	9.8	
Macroeconomic shocks	8.3	4.7	5.2	13.0	4.4	8.9	3.8	38.4	35.7	-3.3	6.0	Macroeconomic Risks
Financial sector interventions	0.0	8.1	9.0	2.5	3.6	8.1	2.5	1.6	24.5	42.8	3.8	Contingent Liabilities
Policy changes	2.3	3.8	1.9	4.9	4.7	1.1	6.4	-8.0	-9.9	-4.3	4.7	Stimulus / Consolidation
Other factors	2.1	-0.3	6.5	1.9	3.7	6.2	8.3	-6.7	7.5	21.6	5.9	
<b>Total Unforecast Increase in Debt</b>	<b>14.4</b>	<b>19.5</b>	<b>20.2</b>	<b>24.0</b>	<b>27.8</b>	<b>28.0</b>	<b>29.1</b>	<b>41.7</b>	<b>59.1</b>	<b>67.7</b>	<b>26.4</b>	

\* GDP-weighted average

Johannes Mueller & Richard Hughes  
World Bank BBL, April 2, 2013

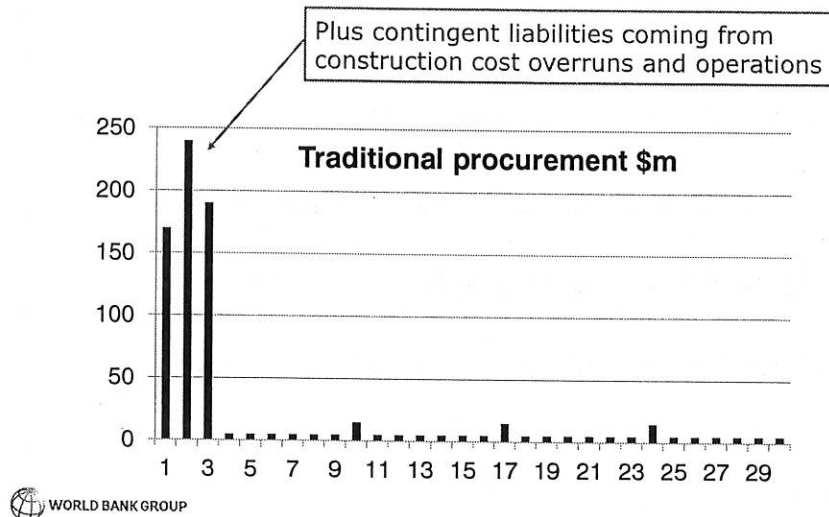


## Traditional budget process

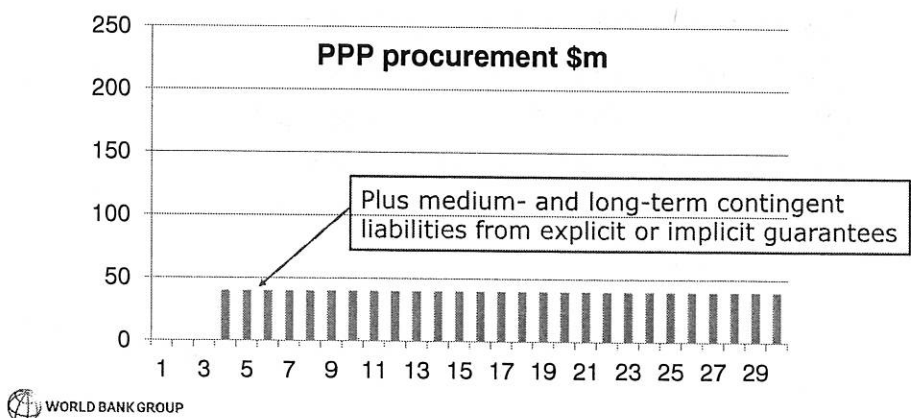
- Cash-based
- Annual appropriation mechanism
- "Competition" for the budgetary endowment
- MoF project filtering, or decentralization
- Scarce checking for long-term sustainability

(this is not appropriate for the case of PPP)

## Government payments in traditional procurement



## Government payments under PPP procurement



## How PPPs (mis)fit into the traditional budget process

- Usually there is no formal appropriation for PPPs
- No competition for the budgetary endowment
- Typically poor (or absent) MoF project filtering
- Significant long-term liabilities (costs and risks)

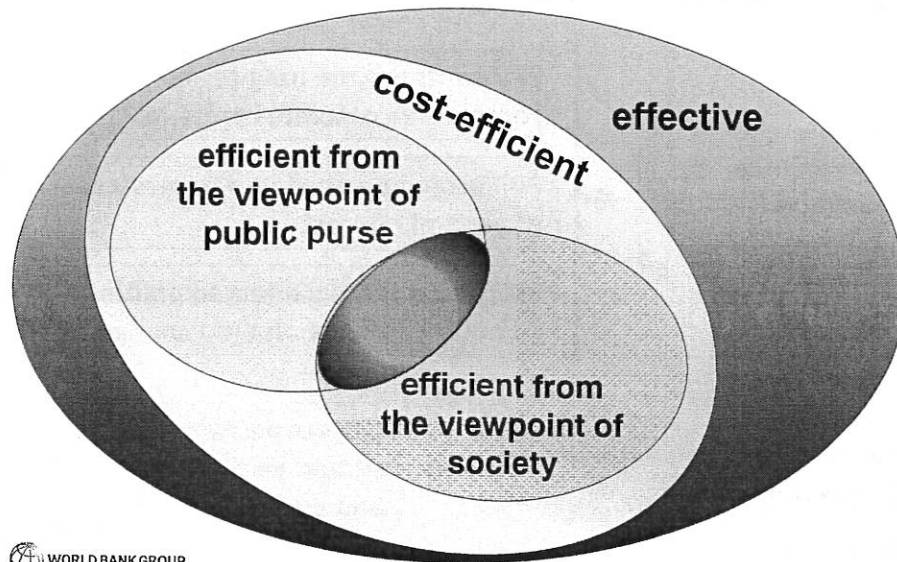
## The link to fiscal reporting

Poor fiscal management and reporting may:

- Bias decision-making in favour of PPPs
- Reduce the quality of project selection
- Distract contract-design from efficiency goals
- Reduce concerns for fiscal sustainability
- Reduce private sector confidence in government



## Effectiveness and efficiency



## Foundations of PPP efficiency

Output-based long-term contracts:

- Core: design + construction + maintenance
- Performance-based payments  
→ *whole-life costing*

Private capital at stake → *credible commitment*

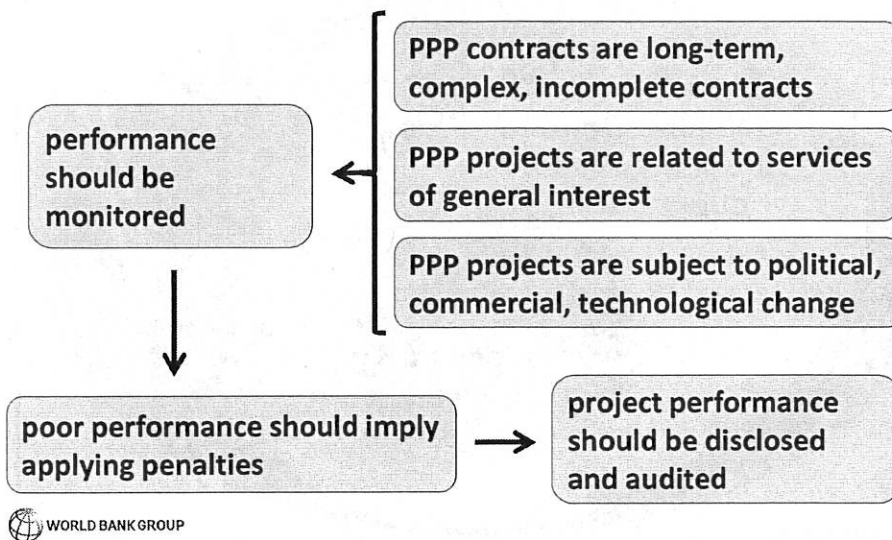
Good project selection (CBA, VFM, affordability)

Competitive procurement

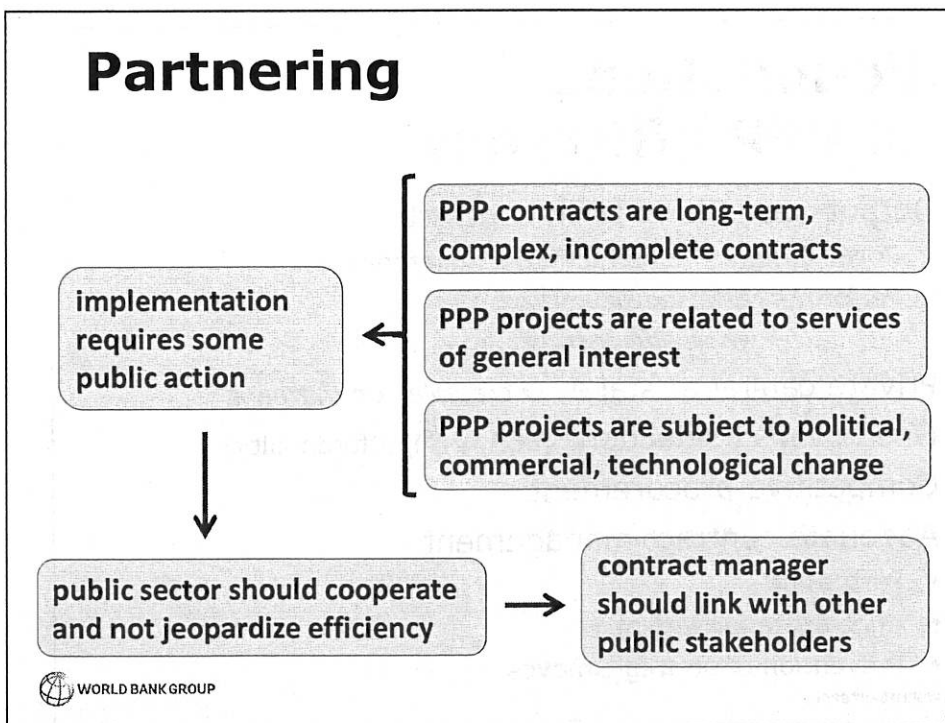
Adequate contract management

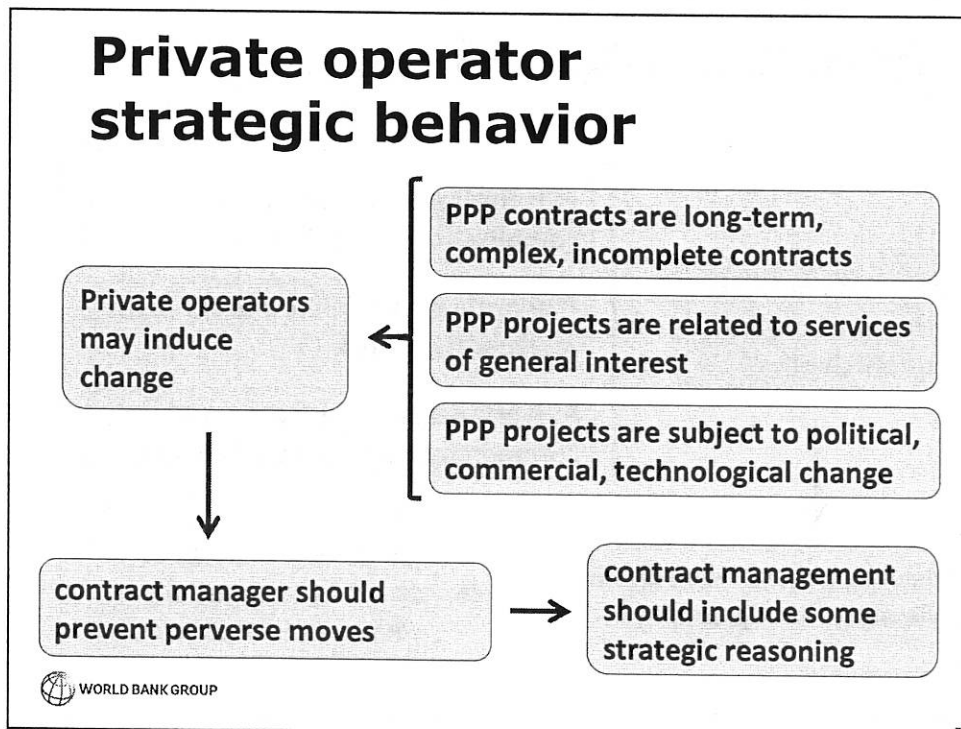
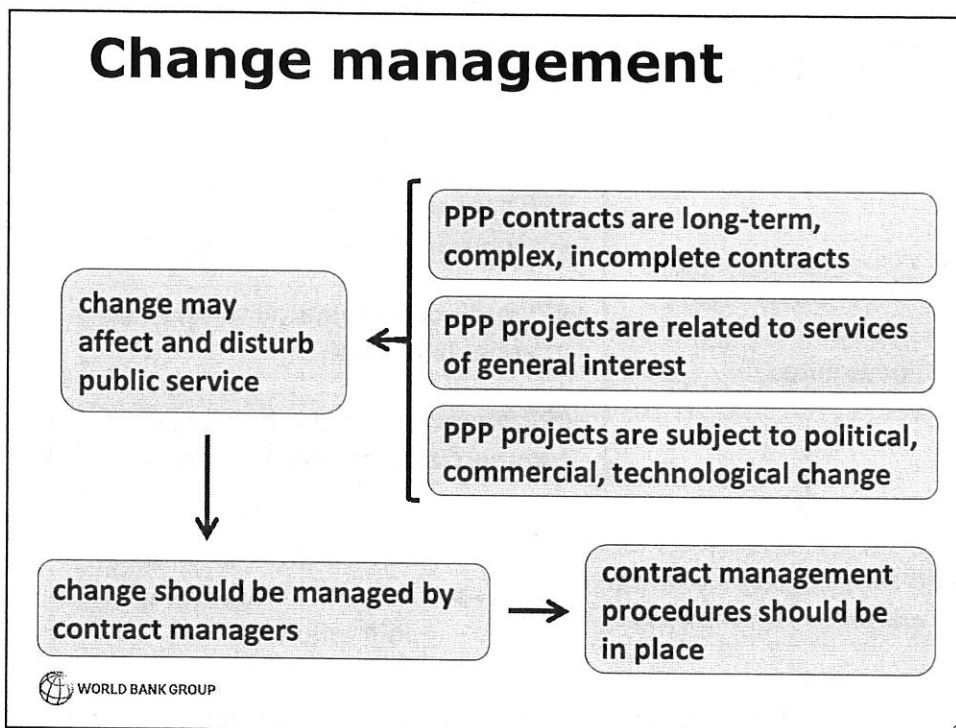
- Partnering
- Contract enforcement
- Prevention of strategic moves

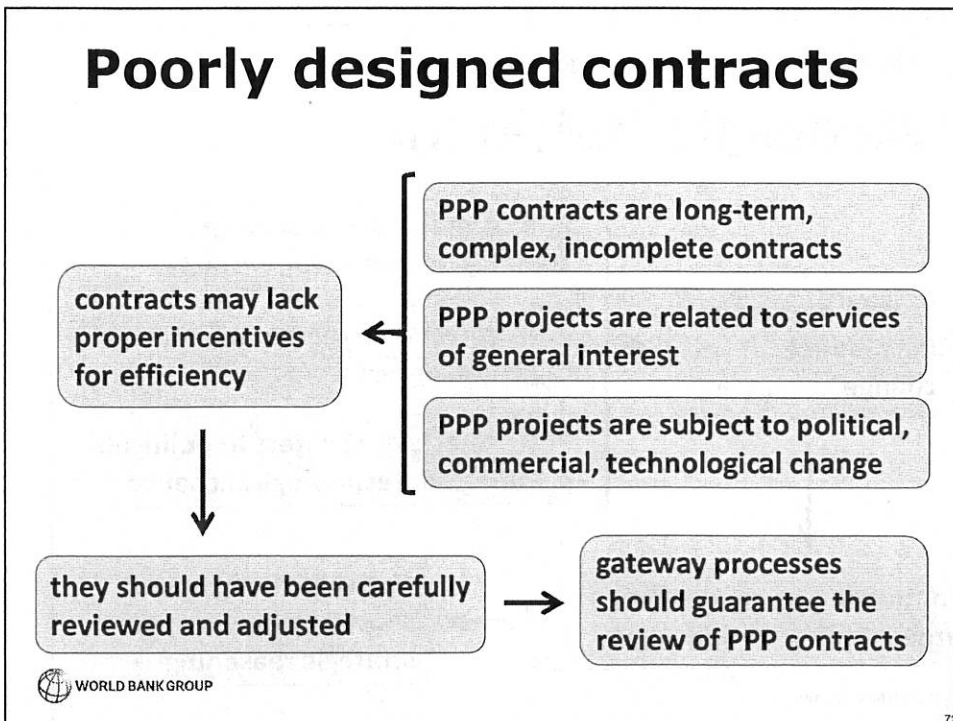
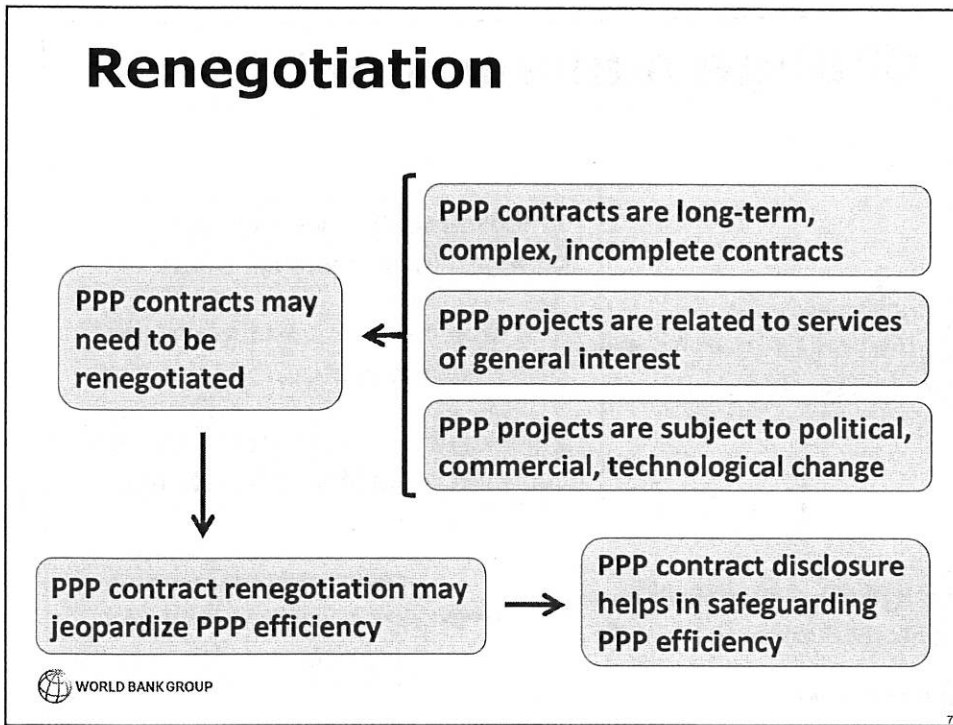
## Applying the contract (enforcement)

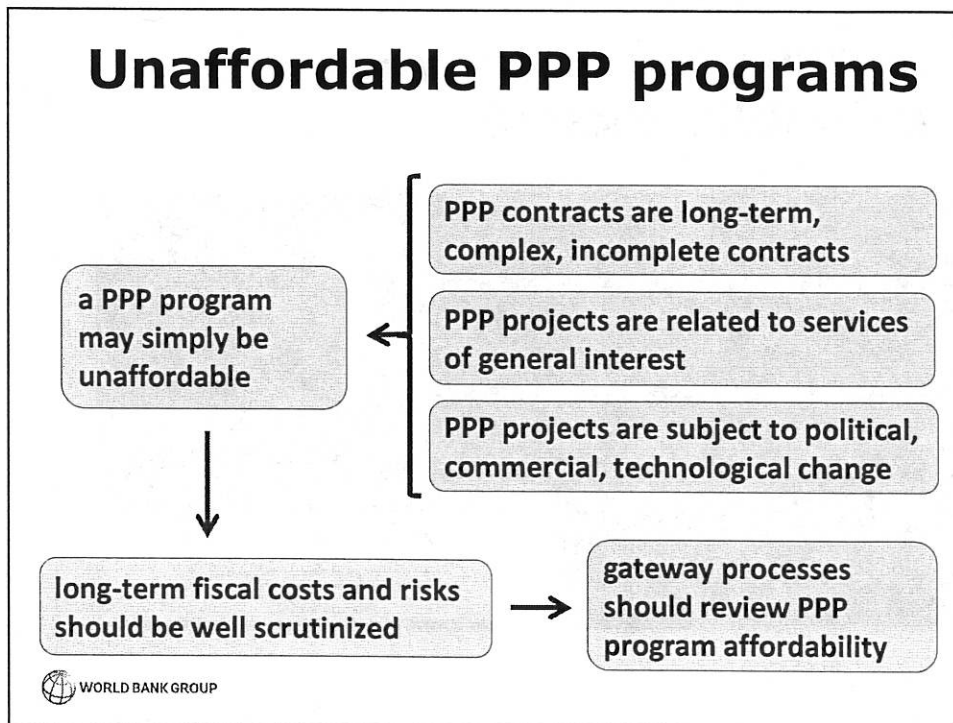
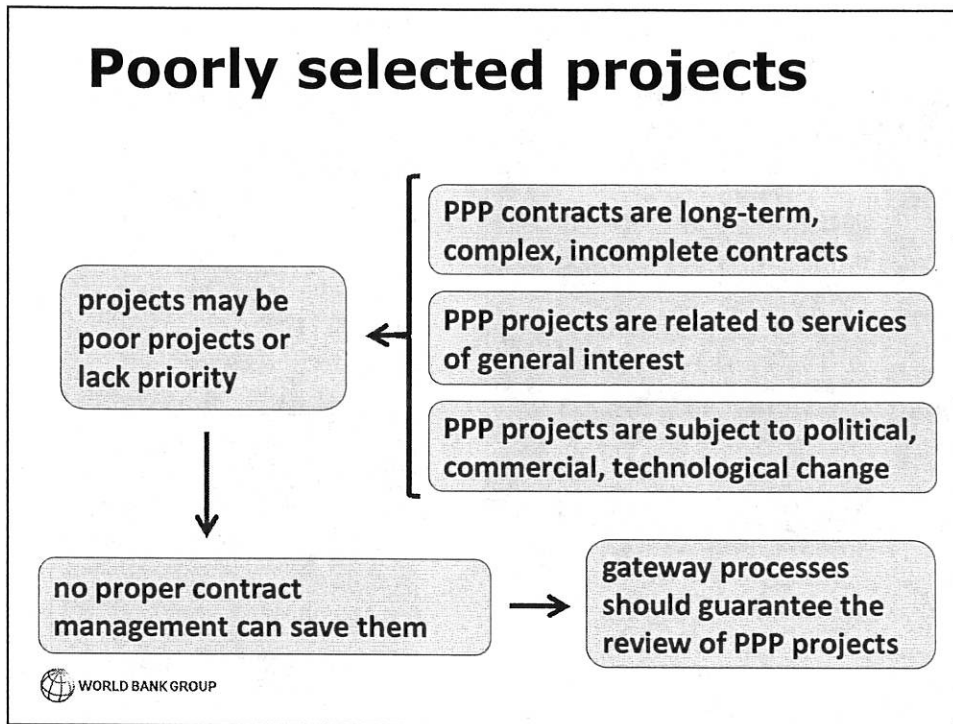


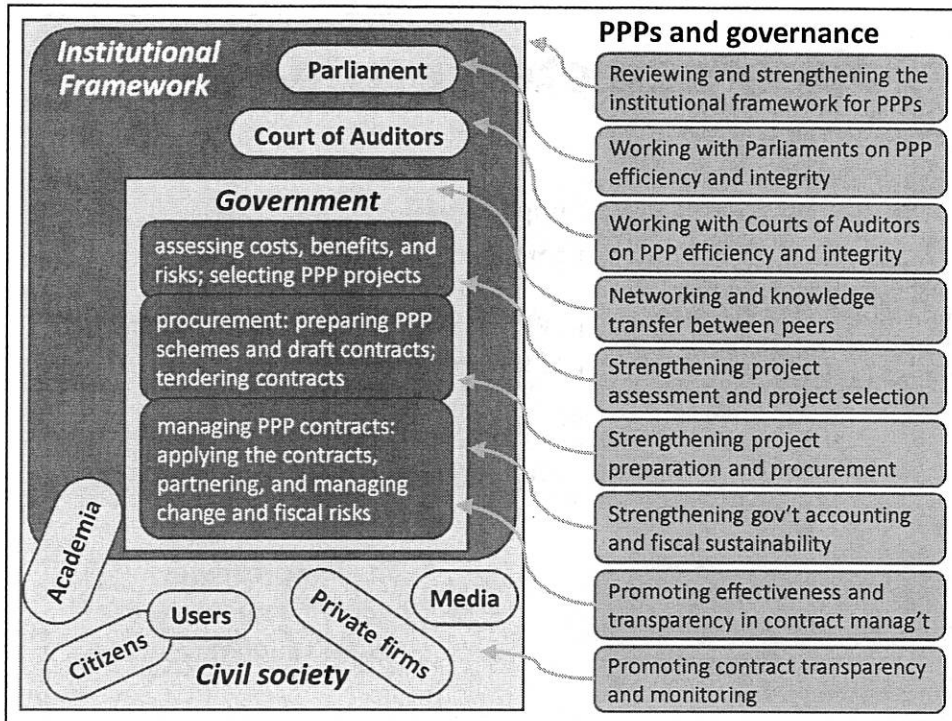
## Partnering



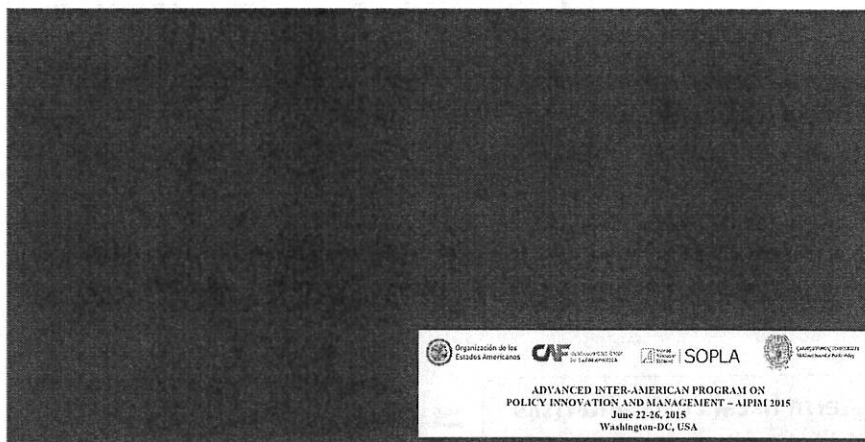








## Do PPPs bring innovation to the public sector?



## PPPs and innovation

What kinds of innovations PPPs can bring to the public sector, even outside the scope of PPP projects:

- additional design focus on **outputs** and **results**, instead of inputs and production processes
- project cycle **whole-life costing** approach adopted in all project assessments
- additional **performance benchmarking** (PPP versus other projects, including non-PPP projects)
- improved **fiscal management** of infrastructure



WORLD BANK GROUP



Public-Private Partnerships  
**Reference  
Guide**  
Version 2.0

### Rui Sousa Monteiro

senior public-private partnerships specialist

tel: +1-202-473-9450

e-mail: [RMonteiro@WorldBank.org](mailto:RMonteiro@WorldBank.org)

World Bank

1818 H Street, N.W.

Washington, D.C. 20433, USA

