International Finance Corporation
World Bank Group

Public Private Partnerships

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Efficiency in PPPs

PPP vs. Traditional Procurement in the UK & Australia

Improved Project Delivery	Study	Non PPP Procurement	PPP Procurement
Cost Overrun	UK	73%	22%
	Australia	35.3%	11.6%
Time Overrun	UK	70%	24%
	Australia*	25.6%	13.2%

* Value-weighted Time Overrun

UK Study: NAO Report of 2003 – UK's National Audit Office Report on PPPs

Australia Study: Allen Consulting Group (University of Melbourne) – 2000 – 2007

Public Private Partnership

- A Partnership between the Public and Private sector to deliver a project or service traditionally provided by the public sector.
- The goal of this arrangement is to provide the service or facility more efficiently and at a lower cost to the end user.
- The arrangement tries to allocate the risks of the venture fairly between the private and public sector, based on each entity's ability to manage these risks.

PPP: The Pot of Gold?

- Governments that are keen to develop infrastructure seek private capital as a substitute for strained public resources
- …or for “asset maximization”: revenue generation from existing public assets
- …sometimes even to “outsource political will” to make necessary but unpopular choices
- Using PPPs to attain these as primary objectives is misdirected, even dangerous. The primary objective of doing PPPs is not just to marshal private capital for public purposes.

Convergence of Government Expectations and Private Sector Requirements

Government Expectations

- Alleviation/Removal of State's Role
- Maintaining Control
- Increase in Quality of Service
- Affordable Tarriffs
- Social Benefits

Private Sector Requirements

- Assurance of Profitability
- Protection from Risks
- Enabling Environment

Public Private Partnership

Key Value Drivers of PPPs

- Projects that have the scope for real efficiency gains, not just transfers
- Contracts that bundle operations and management (and construction) so that there is a *life cycle view* on costing
- Focus on outputs (KPIs) rather than inputs. Government procures a service, not an asset
- Contracts that align incentives of private parties with the public

Efficiency gains in PPPs

- In technology, operations and governance
- That can be tapped only by partnering with competent private parties
- Through a contractual framework that achieves proper risk transfer
- For which we need private "risk capital"
- And a governance mechanism that shares control

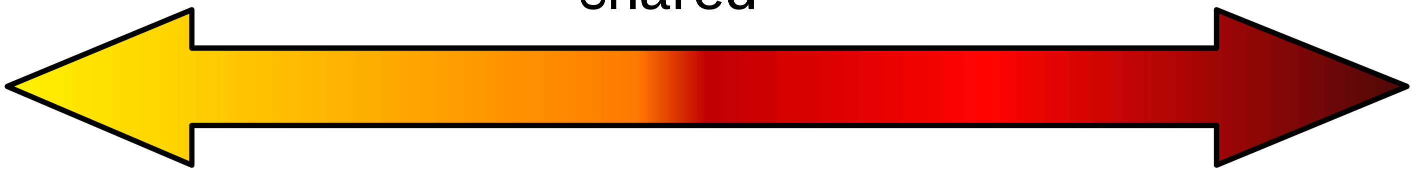
Risk Allocation

"Risks should be allocated to the party best able to manage them"

Public

Shared

Private



Planning permission
Regulatory Risk

Volume Risk
Inflation Risk
FOREX Risk
General Regulatory Risk
Force majeure

Detailed planning permission
Design
Construction
Commissioning
Operating performance
Project Finance
Technology obsolescence

But Beware of the Hurdles

- Contracting burden is high: contracts are complex, long-term, and often incomplete
- Transactions costs are significant
- Renegotiation happens in a non-competitive environment, but is often necessary
- Government gives up some flexibility in future decision making
- Measuring the extent of risks retained and/or transferred is complex: risk transfer is often not enforceable

PPP: Partnership in risk-bearing

- Private capital is *not* enough for a successful PPP
- … what is needed is private risk capital
- … which is possible only if there is sufficient risk transfer to shape incentives that motivate enough efficiency gains
- … to surmount the costs of transactions, contracting complexity, possibility of renegotiation, loss of control, and potential implicit liability

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