Overview: Public Private Partnerships (PPPs)

Sabino Escobedo, TAG Financial Advisors
Workshop Program

Day 1
Overview of PPP’s
- Considering PPP
- Planning
- Stakeholders
- Upstream Policy
- Introduction: EU law

Day 2
Risks & Responsibilities
- Service Standards, Tariffs, Subsidies
- Responsibilities and Risks;
- Fiscal impact; Contingent Liabilities; Sub-national
- Financing: Project Financing; Carbon Financing: Mobilizing Capital markets

Day 3
Institutions & Implementation
- Institutional Framework
- Operator Selection; Contract Renegotiations
- PPP Approach: Ireland; USA; Korea; Chile
- Projects in Europe: Environmental; Urban Sector
- Projects in Russia: Light Rail; Air Ports; Toll Roads
- IFC & Infrastructure Projects: Investment & Advisory
- Sectors: Transport [Toll Roads; Docks]
- Sectors: Water & Energy
- Final Comments from Ministers
- Way Forward

Day 4
Implementation & Way Forward
Day 1
Overview of PPPs

Session 1
Overview

Session 2
Considering Private Participation

Session 3
Planning the Process

Session 4
Involving Stakeholders

Session 5
Setting Upstream Policy

EU Legal Context

Contract Renegotiation
Overview

- Trends in Private Participation in Infrastructure
- Definition of PPPs’ and options available
- Overview of Workshop approach
Trends in Private Participation in Infrastructure
The Global Setting for Private Capital Flows

Net long-term flows to developing countries, 1991-2006

Source: The World Bank
Importance of Country, Regulatory and Project Risk

- Predictably, good projects in developing countries with large markets, strong growth potential and increasingly transparent legal and regulatory environments are preferred over others.

- With the downturn in investor appetite, other markets and opportunities are often not even being considered.
What went wrong in the late 90s?

- **External factors**
  - Macro-shocks: East Asia and Argentinean crisis
  - strong currency fluctuations
  - retreat of international investors to core activities (post-Enron)

- **Problems with the PSP model**
  - inexperience
  - incomplete contracts and risk allocation
  - insufficient local monitoring capacity (institutions)
  - political factors affecting stable investment environment:
    - cost-recovery tariffs versus affordability
    - regulatory framework
Where Do We Stand Today?

- all parties have learned: governments, investors, international financial institutions, consumers
- pure private provision is not the panacea, but shortcomings will not be solved by reversion to pure public provision
- infrastructure needs remain huge:
  - 7% to 9% of GDP per annum in developing countries on average (US$ 500 to 600 billion)
  - private capital mobilization is still small (US 30 cents per US$)
- the link between infrastructure investment, growth and employment, and poverty reduction is clearer and very strong (MDGs)
- a new pragmatic approach based on PPP is needed:
  - fiscal space is insufficient to fulfill investment needs
  - cost recovery policies but at a realistic pace. Need to reconsider use of targeted subsidies link to performance based criteria (output-based aid approaches)
PPI Global Trends: Looking Ahead

- **Public sector funding will remain central.** However need to improve mobilization of private capital to effectively reduce poverty (PPPs).
  - 70% of all infrastructure investments were publicly financed over the 1990s, 8% official development aid, 22% private funds

- Stronger role of local and regional investors in infrastructure development (i.e., South Africa in SSA, Gulf investors in MNA, China, India in East Asia, etc.)

- Domestic and regional capital markets, are likely to increase their role participating actively as financiers and investors in PPP schemes in the forthcoming years.

- PPPs in sectors where the business model (customer base) is wholesale will continue to flourish (i.e., ports, airports, natural gas pipelines, freight railways, etc.)

- PPPs in sectors where the business model is mass-retail and provision is decentralized will continue to have a larger public sector presence (i.e., water and sanitation, urban transport, etc.). However, private sector providers interested in O&M role and in improving efficiency.

- Telecom (mobile in particular) will continue to be a dominant force (technology)

- Delivery of infrastructure services to poor communities is essential to the achievement of the MDGs. Realistic cost recovery mechanism and targeted subsidies will drive the agenda. Small scale providers.
The New Infrastructure Agenda (WBG)

- Business Model based on **Service Delivery**
- WBG engagement along the full spectrum (public to private):
  - Expanding infrastructure finance, particularly at the **sub-sovereign level**
  - Assist with leveraging public funds on **private capital markets** (local currency financing – development of local markets)
  - Provide innovative risk mitigation products
    - currency risk
    - regulatory risk, etc
  - Realistic cost recovery mechanisms and targeted subsidies will drive the agenda:
    - Maximize access despite affordability issues
    - provide help in transition periods to ease distribution concerns

- Support for **effective and realistic implementation of PPP schemes** that can maximize private resource mobilization per unit of public sector contribution.
Definition of PPP and options available
Public Private Partnerships: Basics

- PPPs are **contractual arrangements** between the public sector and a private sector party for the private delivery of public infrastructure services or other basic services. PPPs are **complex structures**, involving different parties, long and demanding negotiations, and relatively high transaction costs.

- PPPs are a **procurement tools** where the focus is payment for delivery of services rendered (outputs – outcomes).

- **Project related risks** (i.e., technical, performance, market and financial risk) are transferred (to a great extent) **to the private entity**. Political, regulatory and foreign exchange risks should be allocated to the party best suited to deal with them (government, international financial institution, private insurers).

- Contract payments are usually structured in such a way that the public authority and / or users pay only for **services rendered satisfactorily and not for assets, which are inputs to service provision**. Revenues are generated via: (i) user fees, (ii) government payments (subsidies) and (iii) multilateral/donor funding and or (iv) a combination of all of the above.
Public Private Partnerships: Advantages

- Private sector **efficiency** and **management skills** are introduced
- PPPs **reduce project implementation risks** for the government
- **Access** to **private capital** is gained and public finances are improved
- The private sector is able to optimize whole-life asset costs, and the trade offs between capital and operating costs, in a way the public sector cannot.
- Private sector can invest in new techniques and exploit economies of scale.
- Higher stock of infrastructure results in **higher growth** – higher growth results in less poverty and more employment.
PPPs: Spectrum of Options

Public Private Partnership

- Works & Services Contracts
- Management Contracts
- Lease Contracts
- Concessions, & Build Operate Transfer
- Full Privatization

Extent of private sector participation
## Contacts

For comments or further details contact:

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PPPs in Infrastructure

THANK YOU!

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