Infrastructure and Development

Discussion of Gómez-Ibáñez and Estache-Fay

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Yale University

Yale. Workshop on Global Trends and Challenges.
Gómez-Ibáñez in a Nutshell

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**Why?**
Gómez-Ibáñez in a Nutshell

- Understanding the discrepancy between performance and perception
- May want to add that reforms were oversold ...
- No quantitative assessment
- Wonderfully written, clear, self-contained, no jargon...
Estache-Fay in a Nutshell

- Survey of where we stand regarding the “big” questions:
  - Infrastructure-growth nexus?
  - How much infrastructure ... and where?
  - Meeting infrastructure needs of the poor?
  - Division between private sector and State?

- Main conclusion: international community should take the data agenda much more seriously

- Looking for research topic?
From Privatizations to PPPs
Three Comments on PPPs

1. When PPPs?
2. Optimal Risk Sharing Contracts?
3. PPPs and Fiscal Accounting
1. When PPPs?

- Normative question
- The cost-of-funds argument (governments save money with PPPs) is wrong:
  - Savings early on in the relationship ...
  - ... come at the expense of foregone revenue at the end of the relationship
  - Irrelevance result: valid even if we incorporate the shadow cost of public funds
- Want PPPs if the private sector is more efficient ... as long as the risk premium involved is not too high
2. Optimal Risk Sharing Contracts

- PPPs: major demand risk beyond the firm’s control, moral hazard often not a major issue
- When the private sector is more efficient, the contract that optimally trades off demand risk, user-fee distortions and the opportunity cost of public funds is characterized by:
  - a minimum revenue guarantee
  - a cap on the firm’s revenues
- High and low demand projects: full insurance for the firm is optimal
- These differ from observed income guarantees and revenue sharing agreements observed in practice
- Contract can be implemented via a competitive auction with realistic informational requirements;
3. PPPs and Fiscal Accounting

- Should PPPs be considered a government deficit item?
- Private provision or public provision?
- When the optimal contract provides full insurance, uncertainty regarding the present discounted government budget looks the same under PPP and public provision
- Hence PPPs are closer to public provision when it comes to fiscal accounting.