



Infrastructure Planning and Management

Public Private Partnerships



Agenda

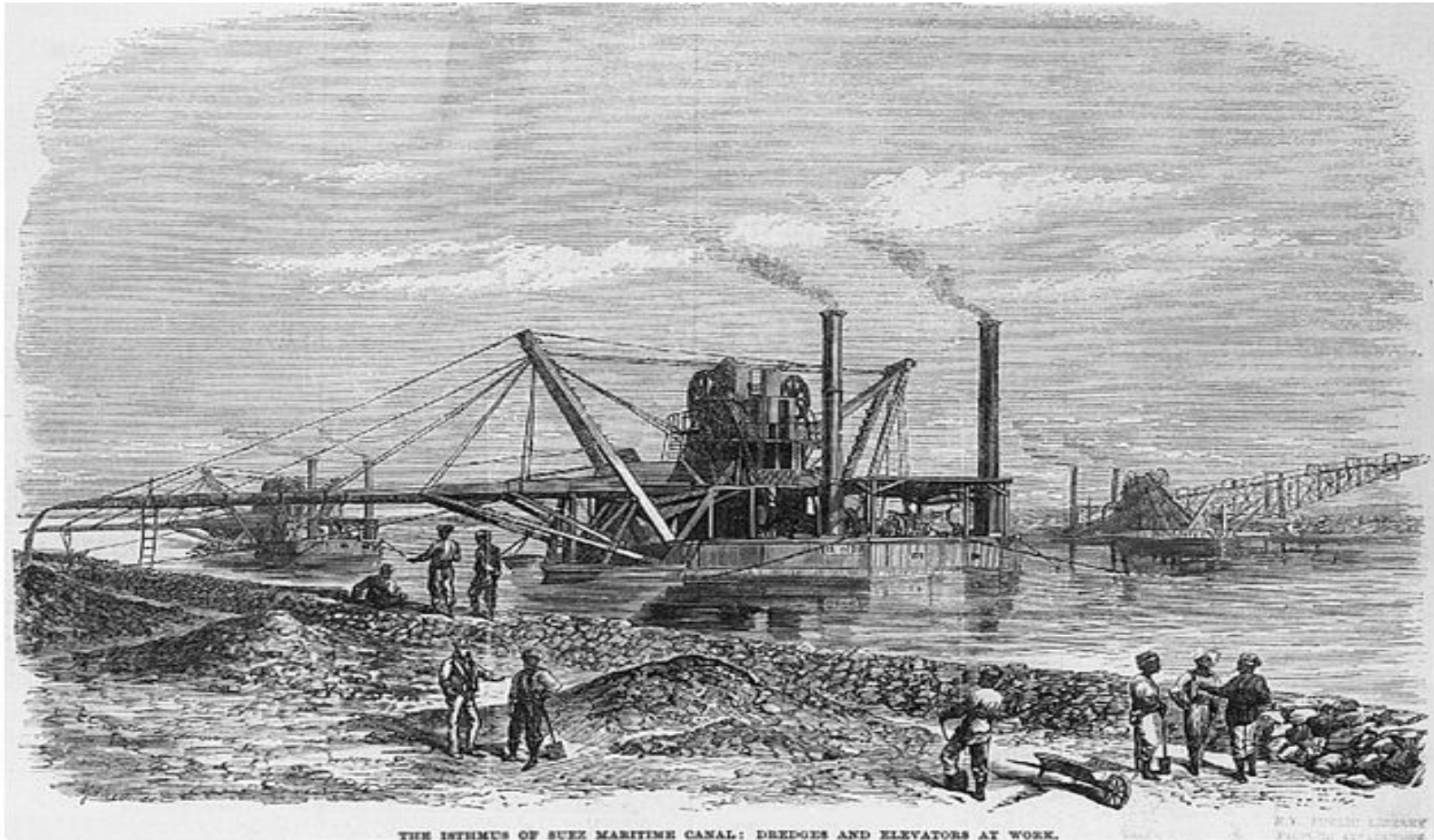
- History of Privatization in Infrastructure
- Types of Private Public Partnerships (PPPs)
- Advantages and Disadvantages of PPP



The infrastructure story

- Who managed infrastructure in the 17th, 18th and 19th centuries?
 - Private players
 - E.g. Railroads and power networks in the US
- Why?
 - Governments did not have much money, especially pre Industrial Revolution

The Suez Canal in 1860 was a PPP





The history of the Canal

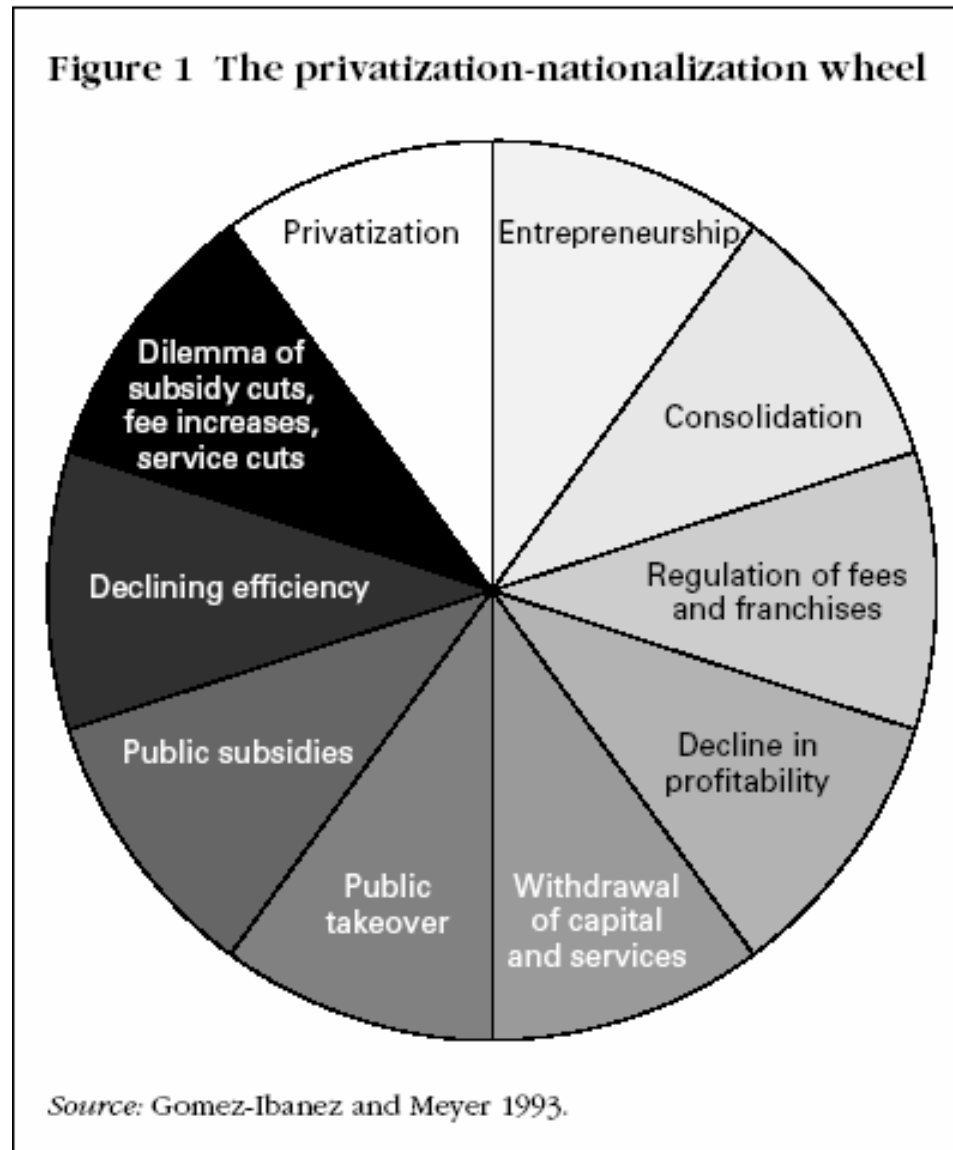
- Circa 1854: The French consul in Caire, Ferdinand Marie de Lesseps, creates the "Compagnie Universelle du Canal Maritime de Suez"
- 25 Apr 1859: The French are officially allowed to begin the canal construction (Said Pacha acquires 22% of the Suez Canal Company, the rest of the shares are controlled by French private holders)
- 16 Nov 1869: The Suez Canal opens; operated and owned by Suez Canal Company



In the 20th century

- Shift in infrastructure provision in the early part
 - Communist ideology, wars, depression, changing social sentiments led to public sector being in charge of infrastructure
- Towards the 1970's...
 - Private sector was again involved in infrastructure – especially in the developing world
 - Fall of Communism ushers rapid rise in private participation

View 1: The Privatization-Nationalization Cycle





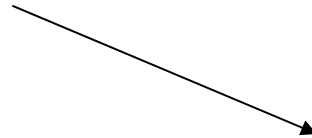
The Privatization and Nationalization Cycle

- The previous figure indicates that in many countries the responsibility for infrastructure provision has been cyclic in nature.
- Private entrepreneurs have undertaken infrastructure provision, but there has been a decline in services and the state has then taken over the provision of infrastructure
- This public takeover has once again resulted in inefficiencies that have then called for the re-takeover of the private sector and so forth

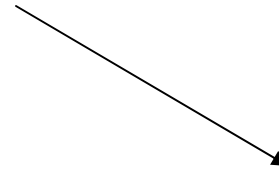


View 2: The evolutionary model

The Entrepreneurial Model



The Rational Systems Model



The Governance Model



The Evolutionary Model

- The evolutionary model is an alternate view of the evolution of PPPs in infrastructure
- In this view, a large amount of initial private activity in infrastructure was in the form of wholly owned private entrepreneurial enterprise (e.g. railroads in the US)
- This was then succeeded by a large scale nationalization of infrastructure around the world, based on rational, scale models
- Starting from the 1970s there has been yet another gradual change to Private-Public Partnerships with mixed responsibilities and adequate contractual governance, for the provision of infrastructure



Private Public Partnerships (PPP)

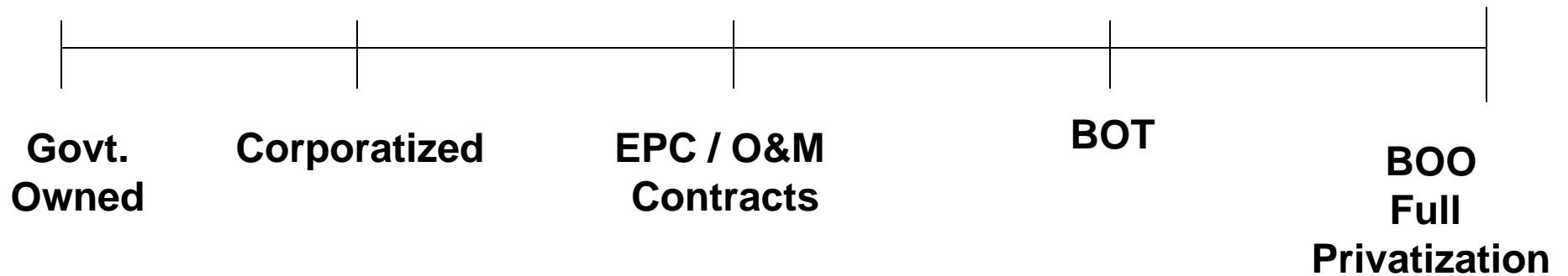
- In the PPP mode, the private sector takes some, but not necessarily all, of the risk and ownership of an infrastructure project
- The following slide shows some of the options for PPPs



Privatization Options

Government Control

Private Sector Control





The Spectrum of PPP

- As indicated in the previous slide there is a spectrum of PPP options
- The government can start by corporatizing a public sector entity so that it acts as an autonomous corporation
- The next stage is for the government to give out Operations and Maintenance Contracts to the private sector on a performance based contracting mode
- Further down the spectrum is the popular BOT or Build-operate-transfer approach where the private sector entity (known as the concessionaire) builds and operates infrastructure for a specified period of time (known as a concession period) , and then transfers the infrastructure back to the government. During this period the private sector can recoup its investment either through user charges or through payments made by the government
- Finally, the government could turn over the ownership of the asset to the private sector and allow the private sector to build, operate and maintain the infrastructure



How to Privatize

1. First the government needs to decide whether the situation merits privatization
 1. Are there public sector ills and private sector benefits that can be identified?
2. Second the government should determine the kind of PPP arrangement to be used
 1. One factor is the potential revenue that can be generated
 2. Social issues and the voice of society can also be considered
3. The government can then ask private players to bid to own and operate a project.
 1. The project should not be over-engineered - the private sector should be allowed to bring its creativity to the table.
 2. The private players should bid on a “bid variable” such as the amount of tariff they will charge
4. The government can then monitor to ensure that the private operator meets societal needs



Role of Private Players in BOT

1. Procure financing
2. Plan, Design, Construct the facility
3. Operate and Maintain the facility
4. Manage the infrastructure throughout the concession period
5. Ensure service to people



Role of the Government in BOT

- To provide the **climate** for private infrastructure players to work
- To provide guarantees and commitments to encourage the private sector to execute infrastructure projects
- To **steer** and not to **row**
 - Since the private sector absorbs financial and performance risks in BOT projects, the government should not control or decide actions. They should merely enable the private sector to perform to the best of their ability by clearing regulatory bottlenecks and introducing incentives in favor of the project.



Government's tasks

- Planning

- Create and monitor a **Masterplan**
- Land Acquisition, formation of shell companies

- Competition

- Introduce competition so that tariffs are low and private monopolies do not come into existence

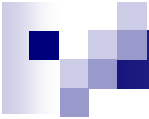
- Prices

- Monitor tariff levels in the interest of the public



Government's tasks, Contd..

- **Contracts, Legal Frameworks**
 - Prepare clear terms and specifications regarding capital leases, concessions, assets
 - Provide conflict resolution mechanisms, anti-competitive legislation
- **Regulation**
 - Provide an Independent regulator to monitor performance and to facilitate renegotiation of the contract if any
- **Social Issues**
 - Increasing Acceptability for the PPP project through conducting stakeholder participation events



Why do we need to adopt PPPs? What are the advantages?

- The Public sector often has some shortcomings
- Finance - in some cases the public sector does not have financial resources to build infrastructure
- Projects are often heavily subsidized leading to an increasing burden on the exchequer
- There is sometimes a lack of expertise in the Public sector when it comes to executing large and complex projects
- Public sector projects are sometimes characterized by poor quality of work, frequent service disruptions, low levels of motivation and incentives, corruption, leakage and theft, selection bias, parochialism, vested interests and power politics



Private sector's advantages

- Finance – can mobilize private funds or funds from capital markets (larger source)
 - Reducing National debt and expenses
 - Allows the public sector to channel more funds to healthcare, education etc
 - Increases state cash inflows due to taxes on the private infrastructure!
- The private sector is often motivated by profit. Since they can be replaced, and thereby lose revenue, if they do not provide good quality service, the private sector is likely to be motivated to bring about improvements in efficiency and quality of service



More advantages of the private sector

- The private sector has to potential to provide fair (reduced) price of services
 - Cannot hike prices since they can be replaced and will lose market share
 - Prices can be higher than govt. controlled prices
- Private sector efficiency can lead to high customer satisfaction and higher volumes of service, since reaching out to more people can mean greater profitability

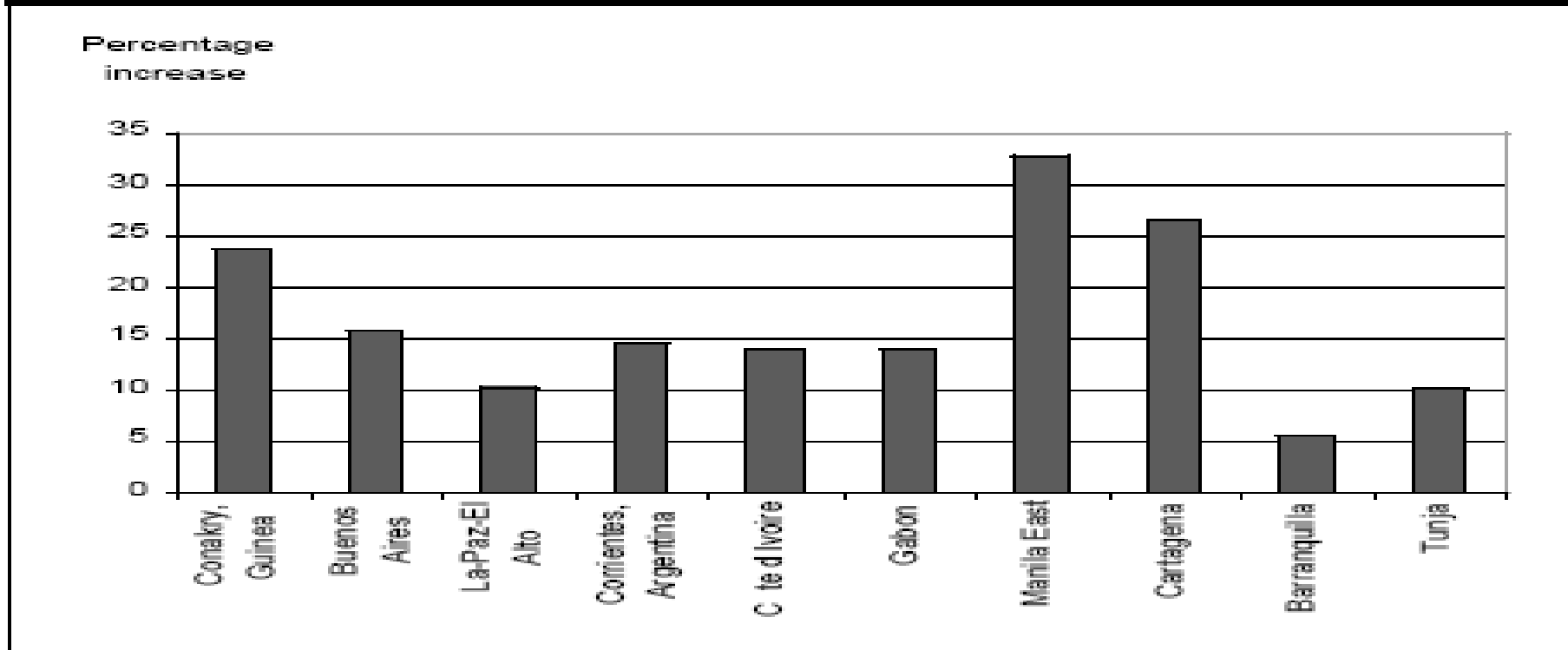


Still more advantages of the Private Sector

- Construction can be fast and of high quality
 - Fewer bureaucratic hurdles are present
 - Innovative techniques are often adopted
- Innovation in selecting, designing and developing projects is likely
- More resources – external manpower and experience are often brought in
- The following 3 slides present data on the increase in quality of service due to private participation in infrastructure in Latin America

Evidence of privatization in water

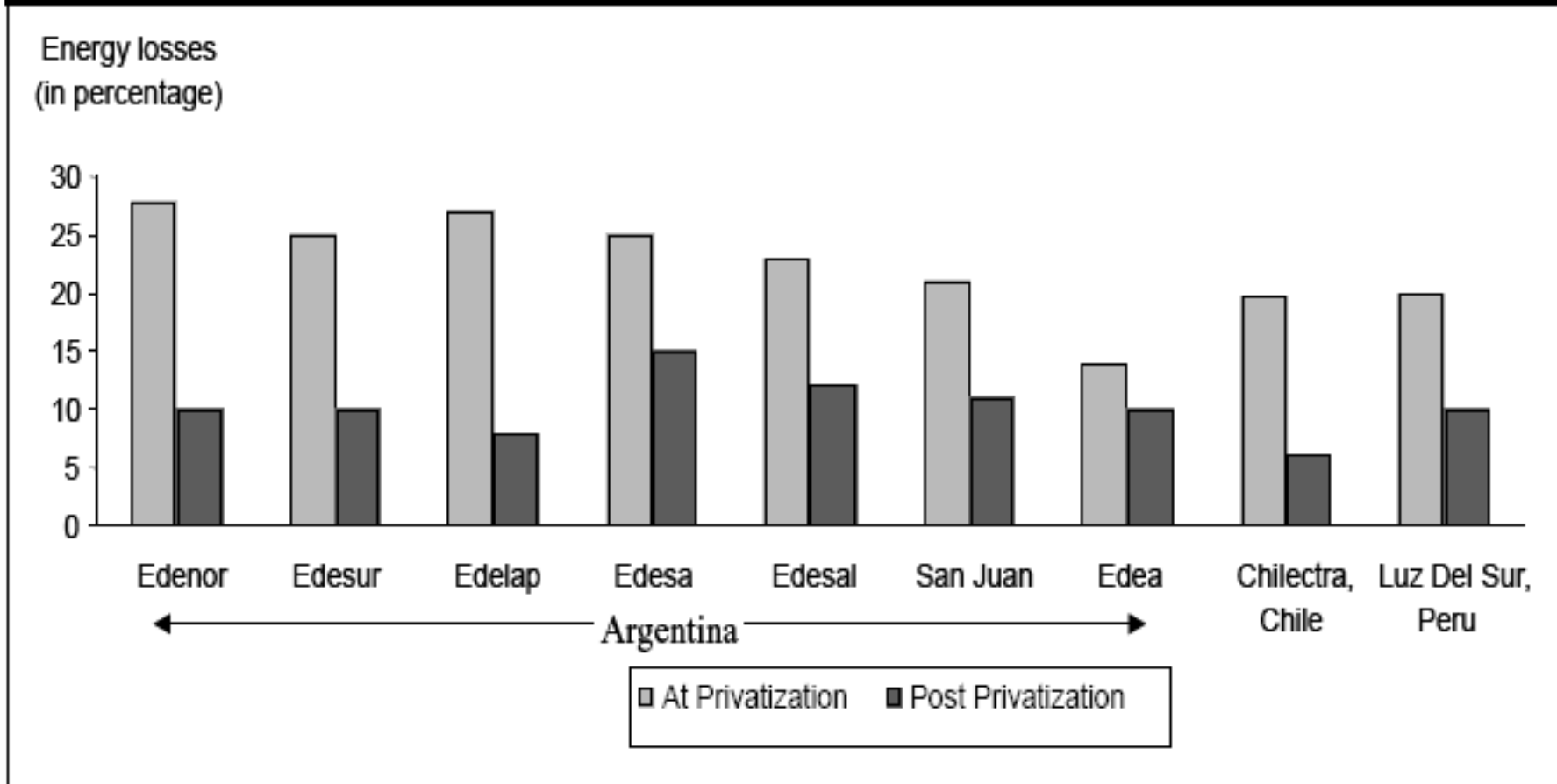
FIGURE 11: WATER: INCREASES IN ACCESS FOLLOWING PRIVATE PARTICIPATION



Source: Barja and Urquiola (2001), Shirley (2002), World Bank/PPIAF (2002a), World Bank (2001), Rivera (2002).

Evidence of privatization in energy

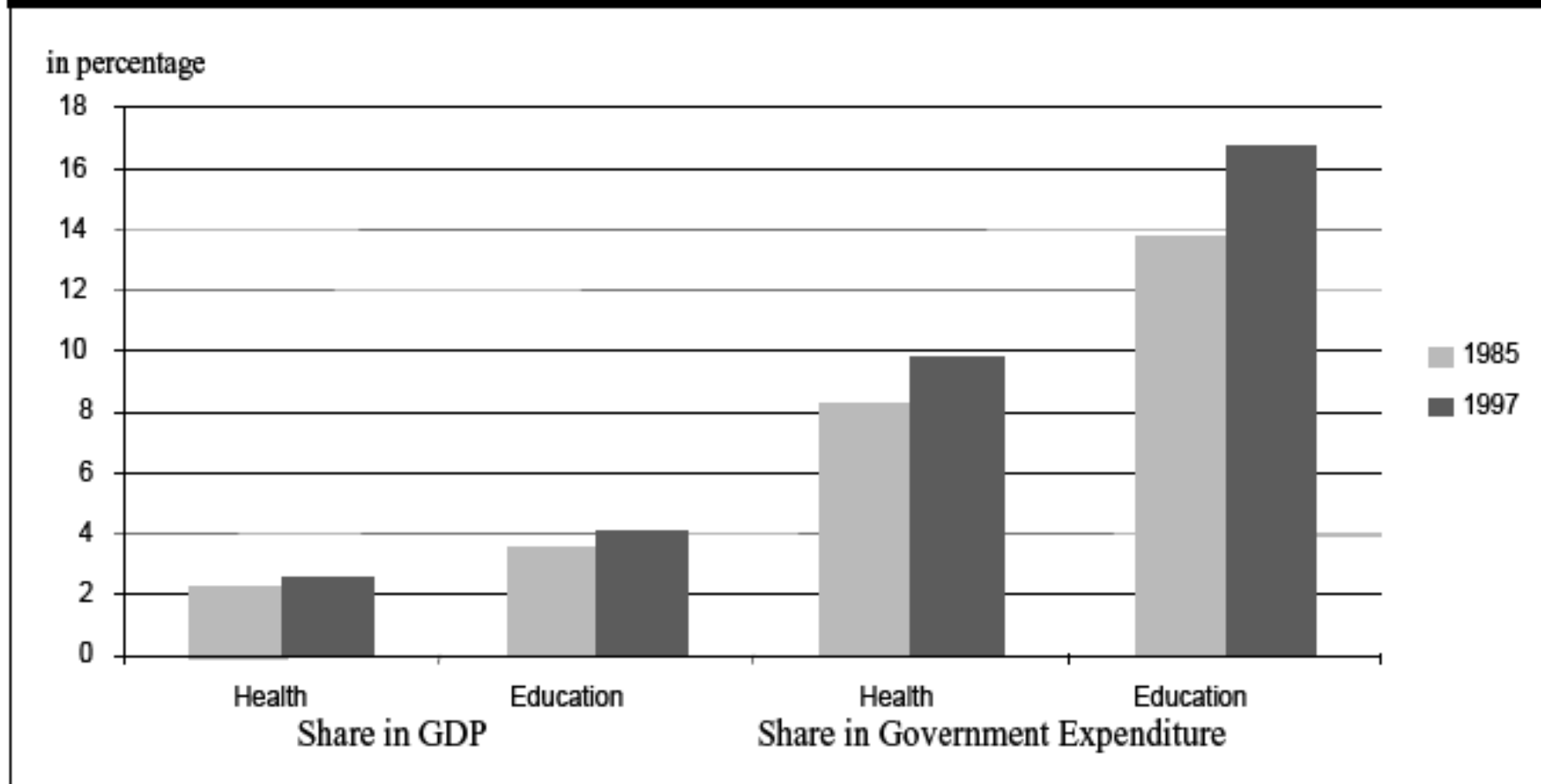
FIGURE 14: LATIN AMERICA: REDUCTIONS IN ENERGY LOSSES FOLLOWING DISTRIBUTION PRIVATIZATION



Source: Feler (1999). Losses include both technical and non-technical losses.

Fiscal Strength

FIGURE 15: LATIN AMERICA: GOVERNMENT SPENDING ON HEALTH AND EDUCATION: PRE AND POST PRIVATIZATION



Source: Estache, Gomez-Lobo and Leipziger (2000).

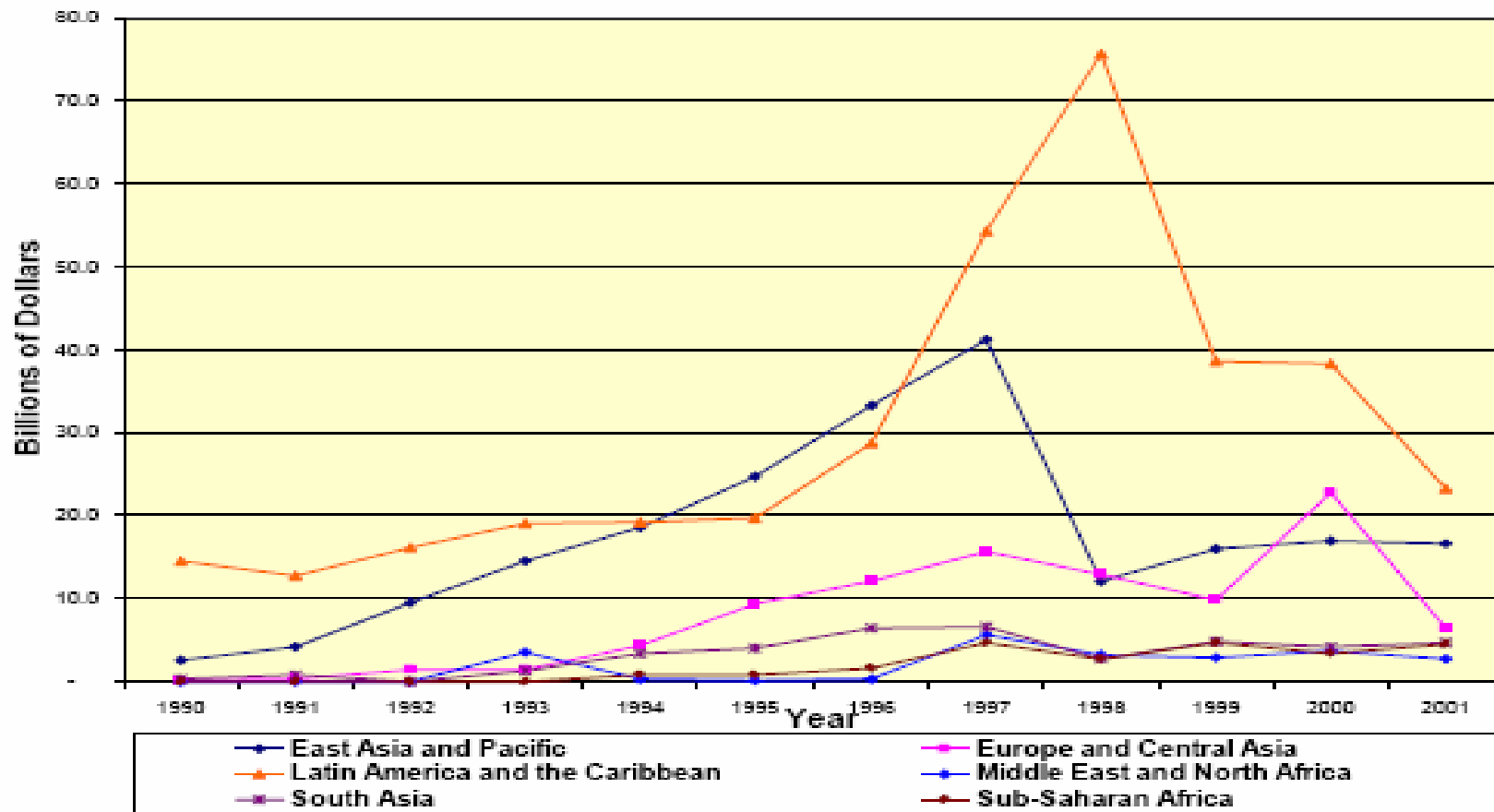


Pitfalls with Private Participation

- Despite these advantages, PPPs have experienced turbulence in the past.
- The following two slides graphically describe the recent worldwide trends with respect to PPPs
 - As the graphs indicate the number of PPPs gradually increased but have been falling in recent times.
- A large number of PPP projects have been renegotiated
 - Although not many cancellations/expropriations
 - This might have affected investor confidence

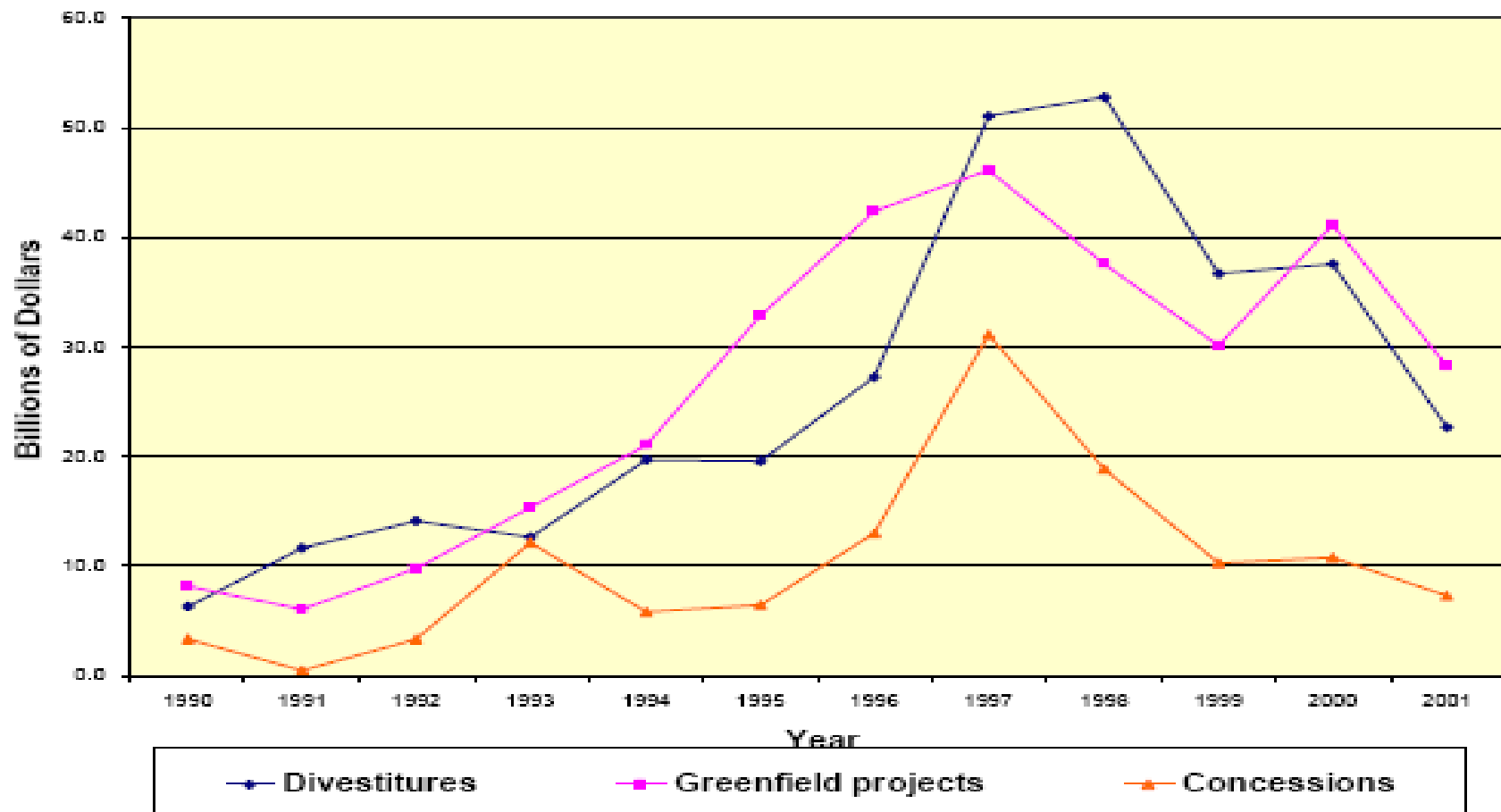
Privatization Trends

Figure 1:
New Private Infrastructure Investment in Developing Countries
by Region, 1990-2001



Privatization Trends

Figure 3:
New Private Infrastructure Investment in Developing Countries
by Type of Privatization, 1990-2001





Problems faced by Private provision of Infrastructure

- **Raise in Tariffs**
 - Very often, in order for the project to be economically feasible, the private sector is forced to raise user charges from preceding levels, leading to unrest.
- **Unemployment**
 - The private sector often operates with a reduced but more efficient workforce, leading to a loss of jobs.
- **Unequal Access to the Poor**
 - Since the poor are often not capable of paying for services, the private sector may not see the value in including them in, say, water provision, as a result the poor may be un-connected and might suffer.
- **Ideological issues**
 - Citizens often perceive the responsibility of delivering infrastructure to be with the government and therefore ideologically oppose privatization of infrastructure.



More problems with privatization

- Due to a lack of indigenous expertise, several foreign firms are often called on to help build infrastructure in several developing countries. This has led to cultural problems, suspicions of wealth being drained away to foreign organizations, and economic problems due to currency fluctuations. These issues have often led to project failure.
- In some cases, political expropriation wherein a government agency reneges on a contract and expropriates a privately built asset has also led to a loss in confidence on the part of private investors. This has also partly been due to the lack of a fair and independent regulator in sectors that are opened up for privatization.
- PPP contracts are often spread over 20-30 years and several political, economic and social shocks arise over this period. Such unforeseen events fundamentally alter the economics of the project and are very difficult to anticipate. These shocks have often led to project cancellation or renegotiation.



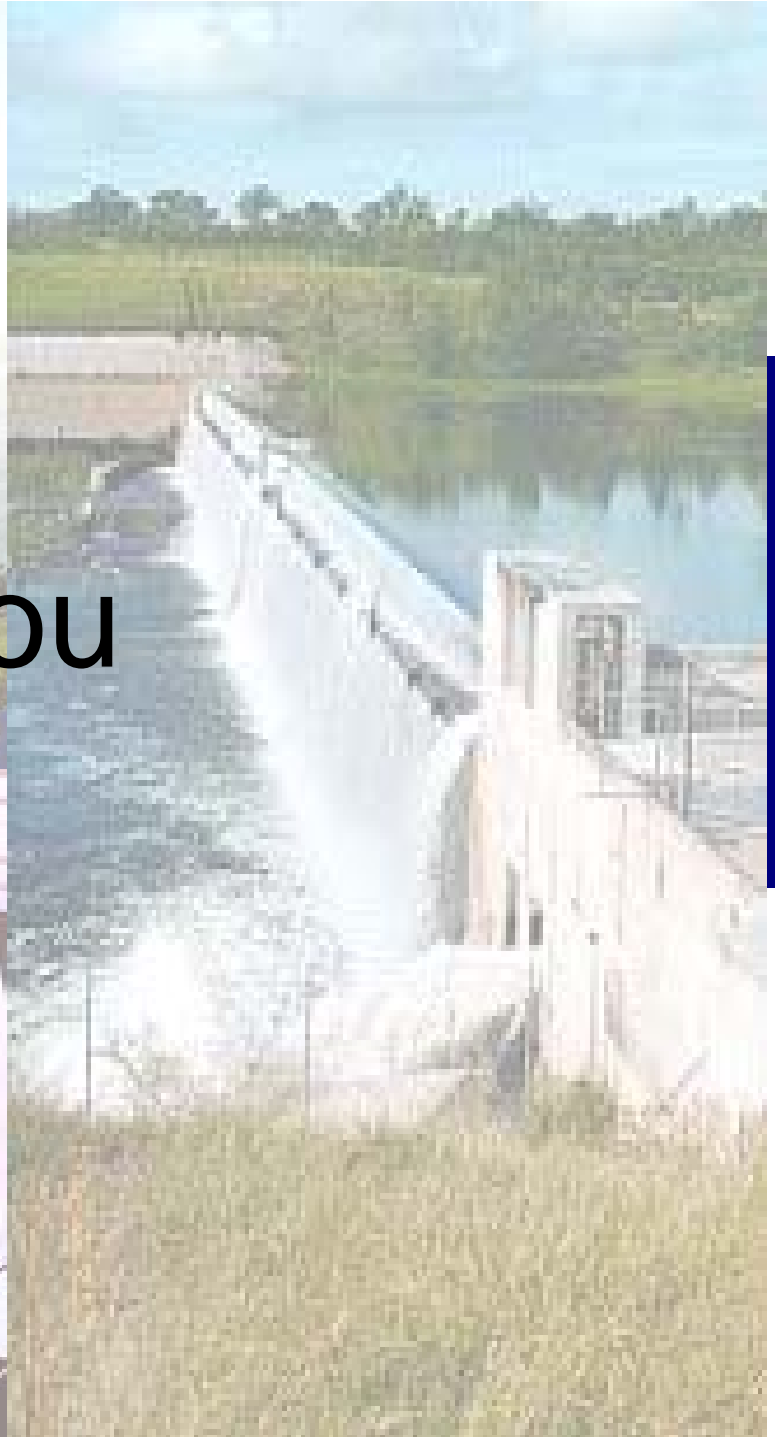
Disillusionment with Infrastructure

- *A study of **over 1000 infrastructure privatizations** in Latin America and the Caribbean between 1982 and 2000 found that **75% of all W&S and 55% of Transportation projects had to be renegotiated** within a few months (Guasch, 2002)*
- **Investor interest has reduced** due to failures in the past, poor performance of previous projects, pessimism, political and other risks that they have to consider



Overall Verdict on Privatization

- PPPs are not a universal panacea. However, if used judiciously, PPPs can lead to the efficient delivery of infrastructure.
- In order to ensure the success of PPPs, issues to consider are
 - Economic feasibility of the project
 - Social and political acceptability
 - Creating flexible and hierarchical contracts
 - Addressing Pricing issues
 - Introducing Competition
 - Establishing a Regulatory and Institutional policy framework



Thank You

