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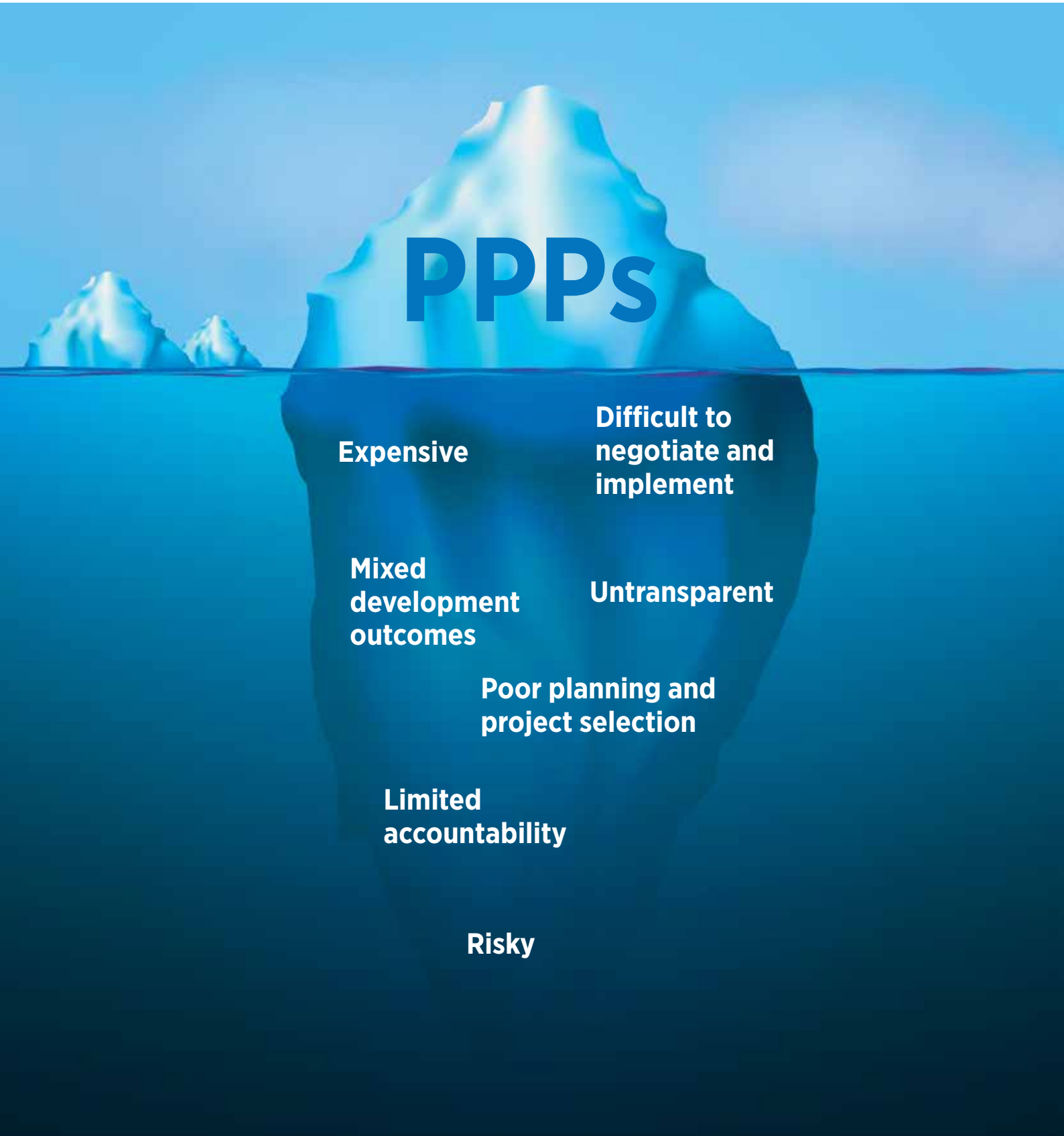
What lies beneath?

A critical assessment of PPPs and their impact on sustainable development

By María José Romero



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Executive summary

Public-private partnerships (often referred to as PPPs) are increasingly promoted as a way to finance development projects. Donor governments and financial institutions, such as the World Bank, have set up multiple donor initiatives to promote changes in national regulatory frameworks to allow for PPPs, as well as provide advice and finance to PPP projects.

PPPs also feature prominently in the discussions around the post-2015 and the financing for development agendas. Currently, there is a strong push to increase the involvement of the private sector in the development arena and to promote PPPs as a key tool to reach the soon to be agreed sustainable development goals.

This report shows that the last decade has seen a huge increase in the amount of money invested in PPPs in developing countries. From 2004-2012, investments in PPPs increased by a factor of six, from US$ 22.7 billion to US$ 134.2 billion. This has been driven by economic growth and thus the need for infrastructure development, but also by low interest rates in developed countries which has driven investors to 'search for yield' elsewhere. Although investments in PPPs fell in 2013 to US$ 84.4 billion, current estimates indicate that the developing world will experience a new wave of PPPs in the near future.

However, it is important to note that despite the promotion of PPPs, private finance only provides about 15–20 per cent of total infrastructure investment. The lion's share is still provided by the public sector, and this situation is likely to continue. Therefore, questions remain about why so much focus is placed on the private sector rather than improving public sector delivery.

This report looks at the empirical and theoretical evidence available on the nature and impact of PPPs, and analyses the experiences of Tanzania and Peru. It critically assesses whether PPPs deliver on the promises of their proponents and gives concrete recommendations for policy-makers.

What is a PPP?

PPPs are not new, but there is also no universally agreed definition of the term. The acronym PPP is currently being used in development discourse to identify very different types of arrangements. This generates an incredible amount of confusion and makes constructive debate about PPPs' contribution to financing development needs difficult.

For the purpose of this report, we use the most widely accepted definition of PPPs. Here, they are described as:

- **a medium- or long-term contractual arrangement between the state and a private sector company;**
- **an arrangement in which the private sector participates in the supply of assets and services traditionally provided by government, such as hospitals, schools, prisons, roads, bridges, tunnels, railways, water and sanitation and energy;**
- **an arrangement involving some form of risk sharing between the public and private sector.**

> Current austerity measures and accounting practices create perverse incentives as governments are allowed to keep the PPP project and contingent liabilities 'off balance sheet.'

There is not always a clear cut-off point and there are differences across economic sectors, geographical regions and even between countries in the same region. Currently, more and more countries are including their own definitions in national laws and policies. This implies that they might mean different things when PPPs are negotiated at the global level, for instance as financing mechanisms within the 2015 development agenda or in the UN's financing for development process.

Why use PPPs?

Public and private sector actors have different incentives to engage in PPPs. Arguments in favour of PPPs may include the capacity of the private sector to deliver high-quality investment in infrastructure. Private sector participation may also reduce the need for the state to raise funds upfront. Instead of building infrastructure with capital upfront, PPPs use annual instalments from revenue budgets or user fees to pay for infrastructure. In this way, governments do not need to directly take loans, but costs will appear either in future periods (as governments assume a future debt), or be absorbed by users. Although PPPs represent a form of borrowing, the difference in the timing of the cash flows creates a strong bias in favour of using PPPs. Current austerity measures and accounting practices also create perverse incentives as governments are allowed to keep the PPP project and its contingent liabilities 'off balance sheet,' which means that the true cost of the project is hidden.

From the private sector perspective, the profitability (or "bankability") of projects is crucial. Depending on the sector and location, PPPs represent a very attractive business opportunity for companies such as construction and engineering companies, service providers (for example healthcare service providers) and banks. The delivery of infrastructure projects traditionally carried out by the public sector represent for the private sector the 'next frontier to conquer.' This is particularly the case for institutional investors (such as pension funds, insurance companies and sovereign wealth funds), who hold trillions of dollars and are looking for attractive returns and seeking to diversify their portfolios, and so reduce the risks to their investments. PPPs offer a less risky way of investing for the private sector, as they guarantee an income for a long period of time, which is normally largely underwritten by the government itself.

> PPPs are, in most cases, the most expensive method of financing, significantly increasing the cost to the public purse.

The challenges of PPPs

As this report shows, making a PPP work can be very difficult. It requires careful consideration of whether they are the best mechanism, and how they should be structured. The evidence also shows that they can often go wrong, sometimes very badly.

We used the following framework to analyse PPPs, taking into account:

A **budgetary affordability of PPP options as compared with public procurement alternatives**;

B **level of efficiency in delivering the services**, including a fair and comprehensive risk assessment;

C **poverty reduction and the fight against inequality**, which means assessing the sustainable development impacts of PPPs, including affordable access to the poor and impacts on the environment;

D **democratic systems in place to manage the project**, which includes project selection criteria and the ability to adequately negotiate, manage and monitor projects throughout their lifespan. This also implies considerations in relation to transparency and accountability mechanisms.

We found that:

PPPs are, in most cases, the most expensive method of financing, significantly increasing the cost to the public purse. A 2015 review by the UK's National Audit Office (NAO) finds "that the effective interest rate of all private finance deals (7%–8%) is double that of all government borrowing (3%–4%)." This means that the cost of financing of PPP projects are twice as expensive for the public purse than if the government had borrowed from private banks or issued bonds directly. In addition, private sector companies can be expected to make a profit on their investment, which in the case of 'government pays' PPPs has to be added to the overall cost of the investment, while in the case of 'user pays' PPPs this is going to increase the cost for users. In the case of developing countries, the returns required by investors are higher than in developed countries, due to higher perceived risks.

PPPs are typically very complex to negotiate and implement and all too often entail higher construction and transaction costs than public works. Findings from a European Investment Bank (EIB) report, which compares the cost of 227 new road sections across 15 European countries of which 65 were PPPs, "estimate that the ex-ante cost of a PPP road to be, on average, 24 per cent more expensive than a traditionally procured road". PPPs' high tender and transaction costs, along with complicated and long-term contracts, means that

few companies have the capacity to apply for projects, reducing the governments' choice and competition in tendering processes. PPPs are all too often renegotiated. In most cases this renegotiation process entails important costs for the public sector due to the lack of competition and transparency, and the privileged position of the private sector company. Overcoming planning and project selection problems is critical for reducing the final cost of the project. However, all too often PPPs suffer from an 'optimism bias,' as a strategic overestimation of demand is common practice. This happens due to weaker incentives for rigorous analysis on both the private and the public sector sides. For instance, in Tanzania, a PPP project saw the state-owned electricity company Tanesco sign a power purchasing agreement with Independent Power Tanzania Limited (IPTL). This deal was highly contested on the grounds of cost and the projected demand for power. There were also allegations of corrupt payments to government officials and planning problems. The project was approved by three government officials without a proper feasibility study, which would have shown that the problem was not insufficient generating capacity, but a lack of gridlines.

PPPs are a very risky way of financing for public institutions. The historical experience of several countries in the developed and developing world shows that PPPs can pose a huge financial risk to the public sector. A report launched in 2014 by Oxfam and the Lesotho Consumer Protection Association shows that a PPP hospital cost US$ 67 million per year – at least three times what the old public hospital would have cost today, and it consumed more than half of the total government health budget. The fiscal implications of PPPs come from non-transparent contingent liabilities (or risk of debts in the future) and the expectation of the public that the state should ensure the public provision of services. If a project fails – and this is not infrequent – the costs are shouldered by the public sector, which has to rescue the PPP project, or even the company, which results in private debts being shifted to the public sector.

The evidence of impact on efficiency is very limited and weak. PPP supporters argue that most of the additional cost of private over public finance is justified because of efficiency gains. However, research indicates that, in most cases, efficiency gains depend on the sector, the type and size of projects, the private sector increasing capital investment as contractually agreed, and the country context in terms of regulatory environment and governance. A 2009 World Bank report on private participation in electricity and water in developing countries in the past 25 years points to an increase in efficiency gains, but at the same time it points to a lack of investment of the private sector, and to a failure to lower prices for consumers. One plausible explanation, included in the report, for where these savings went is that "the private operator reaps all the gains through profits. Given the young regulatory environments in developing countries, which often lack sufficient capacity for supervising public-private contracts, this possibility needs to be considered."

PPPs face important challenges when it comes to reducing poverty and inequality, while avoiding negative impacts on the environment. The evidence shows that the impact of PPPs on development outcomes are mixed and vary greatly across sectors. PPP projects have to be commercially viable or private companies will not sign up to them as they are looking to maximise profits. This limits the extent to which PPPs can succeed in areas that are not at first going to be profitable. While in some cases private participation results in improvements in service delivery, private companies have a greater incentive to strip out any elements of a service that might reduce their potential profits, including cutting jobs. In a context where there are political demands to cut public spending, the existence of PPPs creates greater threats to other spending on public services. Furthermore, the impacts of PPPs on the environment are even less well researched and systematically considered for institutions and project promoters. Although financial institutions, such as the World Bank, have social and environmental safeguards for their operations, the implementation of these safeguards has also been an issue on the ground. In the last decade local communities have submitted many different complaints

to the institutions' redress mechanisms in relation to the environmental and social impacts of PPP projects.

Implementing PPPs poses important capacity constraints on the public sector, particularly in developing countries, where systems to do this well might not be in place. When this is the case it takes both time and experience to establish capacities, which does not always allow the urgent need for particular services to be met. Although many efforts to change the regulatory framework have been put in place, this does not result in immediate improvements, as the cases of Peru and Tanzania covered in this report clearly illustrate. Monitoring is also challenging. It often does not cover the lifespan of the project, and thus does not register the impact of the project on the ground.

PPPs suffer from low transparency and limited public scrutiny, which undermines democratic accountability – including proper redress of affected communities – and offers greater opportunities for corrupt behaviours. Although there is rhetorical recognition of the importance of transparency and stakeholder participation, in practice they are still missing and in some cases PPP projects have triggered community opposition and government repression. As the cases of Peru and Tanzania show, the experiences at country level are mixed. In Peru, for instance, there have been some agreements reached with indigenous communities, but there are also cases where communities have demanded, through mass demonstrations, an open and transparent process of public consultation.

This report shows that promoting PPPs in a non-critical way is a mistake. Governments and financial institutions should focus on developing the right tools at country level to identify whether – and under what circumstances – it is desirable to use PPPs.

Recommendations

As this report is published, the post-2015 and the financing for development agendas are being negotiated. PPPs are proposed as a key component of the financing for development agenda in response to pressing infrastructure needs. However, it is crucial to take into account what has happened so far and examine whether PPPs will help the world's poorest countries to finance the roads, schools, hospitals, energy and other infrastructure facilities they need to grow and thrive.

We recommend a set of concrete actions that can have a crucial impact in this debate.

a) Stop hiding the true costs of PPPs:

- As PPPs are an expensive form of debt, sensible accounting practices should be adopted, for instance:
  - Include PPPs in national accounts, i.e. they get registered as a government debt, and therefore are part of debt sustainability analysis, rather than being off balance sheet; and
  - Explicitly recognise the risk of hidden contingent liabilities should the project fail, through adequate risk assessment.
- Select the best financing mechanisms, including examining the public borrowing option, on the basis of an analysis of the true costs and benefits of PPPs over the lifetime of the project, taking into account the full fiscal implications over the long-term and the risk comparison of each option.

b) Be transparent and accountable:

- Governments should proactively disclose documents and information related to public contracting in a manner that enables meaningful understanding, effective monitoring, efficient performance and accountability of outcomes. According to the Open Contracting Global Principles, this would require proactive disclosure of:

  I. Contracts, including licences, concessions, permits, grants or any other document exchanging public goods, or resources and any amendments thereto;

  II. Related pre-studies, bid documents, performance evaluations, guarantees and auditing reports.

  III. Information concerning contract formation, including the planning process of the procurement; the method of procurement or award and the justification thereof; the scope and specifications for each contract; the criteria for evaluation and selection; the bidders or participants in the process and any procedural exemptions for which they qualify; the results of the evaluation, and the identity of the contract recipient and any statements of beneficial ownership provided.

  IV. Information related to performance and completion of public contracts, including status of implementation against milestones; dates and amounts of stage payments made or received and the source of those payments; service delivery and pricing; arrangements for ending contracts; final settlements and responsibilities; risk assessments, including environmental and social impact assessments; provisions in place to ensure appropriate management of ongoing risks and liabilities; and appropriate financial information regarding revenues and expenditures, such as time and cost overruns, if any.

- For any major infrastructure projects, governments should allow for good and democratic governance through informed consultation and broad civil society participation and monitoring, including by local communities, trade unions and other stakeholders. Governments should also ensure the right to redress for any affected communities.

c) Put development outcomes at the forefront:

- Projects should be designed and selected to benefit everyone in the society through the delivery of sustainable development outcomes, in agreement with national and democratically driven development strategies. This means ensuring affordability of the services for the public sector and the users, as well as addressing equity concerns in terms of equitable access to infrastructure services and avoiding negative impacts on the environment.

- Governments should develop clear outcome indicators and effective monitoring to measure the impacts of PPPs on the poor, from the project selection phase to the operational phase of the project.

d) Put developing countries in the driving seat:

- As part of the follow up after the Third Financing for Development Conference, governments should hold inclusive, open and transparent discussions, under the auspices of the United Nations, on developing a set of comprehensive and development-focused principles and criteria for the use and assessment of PPPs. Until this happens, the World Bank and other financial institutions and donor governments should stop promoting PPPs as the preferred way to invest in infrastructure.

Introduction

Public-private partnerships (often referred to as PPPs) are currently very high on the agenda of many governments, development institutions and private sector companies, although their popularity varies across sector and location. Governments increasingly expect public finance to catalyse private financial flows with the objective of generating economic growth and delivering public services. As a result, PPPs are now used widely around the world, contributing about 15–20 per cent of total infrastructure investment.

Although PPPs are by no means new arrangements, there is not a universally agreed definition of the term. Nowadays the term 'PPP' is used in development circles to refer to different types of arrangements, which generates an incredible amount of confusion and makes any constructive debate about PPPs' contribution to financing development needs very difficult.

In this report, we have chosen to analyse just one set of all the possible types of 'partnerships'. We use the most widely accepted definition of PPPs, in order to help us set out the limits of what is and what is not a PPP.

As far as this definition is concerned, a PPP is:

- **a medium- or long-term contractual arrangement between the state and a private sector company;**
- **an arrangement in which the private sector participates in the supply of assets and services traditionally provided by government, such as hospitals, schools, prisons, roads, bridges, tunnels, railways, water and sanitation and energy;**
- **an arrangement involving some form of risk sharing between the public and private sector.**

In many cases, PPPs are used to provide services that involve a specific human right. States have a duty to ensure provision of at least a basic level of these services, such as health, clean water or basic education for children, as nearly all of the world's states have signed up to the Convention on the Rights of the Child. A failure to provide these services carries considerable social and economic costs.

In practice, PPPs are being promoted at all levels: the EU level, and global multilateral level, for example, at the World Bank within its new Global Infrastructure Facility. The G20 also has a workstream to promote PPPs in infrastructure, using the Global Infrastructure Initiative and the Global Infrastructure Hub. In addition, European governments are increasingly interested in using PPPs as a way of delivering development assistance, which in in practice helps create business opportunities for European companies.

This report aims to contribute to civil society debate on this critical subject and to input into ongoing policy processes at national, regional and global level. At the time of publication, this issue is of paramount importance, as the post-2015 and the financing for development agendas are being negotiated. Currently, there is a strong push to increase the involvement of the private sector in the development arena and to promote PPPs as key arrangements to reach sustainable development goals.

This report is based on the data currently available on PPPs, on a wide range of existing literature, with both theoretical and empirical evidence, and on two country case studies carried out by partner networks Afrodad and Latindadd, in Tanzania and in Peru, respectively. Although this report covers a wide range of issues in relation to PPPs it is by no means comprehensive in its coverage with regards to the complexity of the debate.

This report is structured as follows:

The first section examines the definitions of PPPs and their main features. It analyses the most recent figures available on PPPs, including by region, sector and country-income groups, and presents the rationale as well as the different players behind PPPs.

The second section presents a critical assessment of PPPs, by addressing concerns around four main areas:

- budgetary affordability of the PPP modality;
- level of efficiency and risk considerations;
- the ability of PPPs to deliver sustainable development outcomes; and
- the institutional system in place to negotiate, manage, implement and monitor PPP projects, including transparency and accountability mechanisms.

The final section makes concrete recommendations for reform.

1 Public-private partnerships: definition and current trends

Public-private partnerships are by no means new arrangements. However, there is not a universally agreed definition of the term. On the basis of the most widely accepted definition of PPPs, this section shows that PPPs have been heavily promoted by a wide range of institutions, donor governments and corporate bodies in developed and developing countries alike. This promotion has been reflected in the creation of multiple donor initiatives with the objective of enabling the business environment for PPPs to flourish. As a result, the last decade has seen a huge increase in the amount of money invested in PPPs in the developing world, with a focus on middle-income countries and on energy and transportation. While governments might present many reasons for engaging in PPPs, current austerity measures and accounting practices create perverse incentives in favour of PPPs. PPPs are often "off balance sheet," i.e. their costs and liabilities are not registered in the accounting books, which means that the cost of the project is hidden.

A critical starting point – What are PPPs?

Despite the huge amount of work devoted to studying PPPs, there is not a universally agreed definition of the term. The word 'partnership' has nowadays become a *catch-all* expression to describe the engagement between public and private actors (for-profit, but also non-profit). The acronym 'PPP' is currently being used in development circles to identify very different types of arrangements. These range from informal and short-term collaborations between non-governmental organisations (NGOs), the private sector and/or government agencies to implement specific programmes or projects to more complex, formal and long-term contractual arrangements in which the private sector participates in the supply of assets and services. In a very general way, all of these arrangements can be seen as 'partnerships.' However, this generates a lot of confusion and makes it difficult to engage in any constructive debate about PPPs.

In this report we have chosen to analyse just one set of all the possible types of 'partnerships'. We use the most widely accepted definition of PPPs, which generally looks something like this:

- **a medium- or long-term contractual arrangement between the state and a private sector company;**
- **an arrangement in which the private sector participates in the supply of assets and services traditionally provided by government, such as hospitals, schools, prisons, roads, bridges, tunnels, railways, water and sanitation and energy;**
- **an arrangement involving some form of risk sharing between the public and private sector.**[1]

In many cases, PPPs are used to provide services that involve a specific human right. The public sector is perceived as having a duty to ensure provision of at least a basic level of these services, such as health, clean water or basic education for children. Failure to provide these services carries considerable social and economic costs.

This definition helps us set out the limits of what is and what is not a PPP. It excludes the purchase by governments of goods, services and works (known as public procurement), as well as informal or loose collaborations between different actors, including multi-stakeholder partnerships and short-term outsourcing arrangements for the delivery of goods and the provision of services, for instance, in health or education. It also excludes privatisation schemes, by which previously publicly owned services and facilities are fully transferred (by sale) to the private sector. However, there is not always a clear cut-off point and there are differences across economic sectors, geographical regions and even between countries in the same region. Currently, more and more countries are including their own definitions in national laws and policies (see Annex). This implies that countries might mean different things when PPPs are negotiated at the global level, for instance, as financing mechanisms within the post-2015 development agenda or in the UN's financing for development process.

It might be useful to look at the following main and generic features shown by PPPs around the globe:

- **Contract:** Medium- to long-term, but finite, contracts between the public sector (national or local level) and a private sector company (or consortium), normally ranging from 15 to 35 years.
- **Public service provision:** The public and private sector actors agree on the terms of the delivery of a service to the government, or to the public, using a particular asset (e.g. transportation, water and sanitation, energy, health, education, security). The public sector usually specifies the quality and quantity of the service it requires from the private sector.
- **Finance:** A private finance component, which must be repaid by the public sector and/or users pay over the life of the contract.
- **Responsibilities:** The private sector company is committed to specific deliverables that vary over the contract period, such as finance, construction and operation, which entail associated risk.
- **Ownership:** Upon completion of construction or at the end of the contract term, ownership of the asset is returned to the public sector.

The contractual arrangement establishes the conditions of the delivery of goods and services. It provides legal rights to the private sector partner that will be enforceable for the length of the contract.[2] The private sector

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partner is usually a consortium made up of a bank and construction, property and facilities management companies, constituted as a legal entity (a special purpose vehicle or SPV) financed by debt and equity. These rights can come in various forms, either from government support mechanisms (financial or non-financial) or from a revenue stream connected to the final user of the asset or service. According to the vast literature on PPPs, the main forms of these rights are:

- **A cash subsidy to a project.** This can be a lump sum or a fixed amount on a per unit basis, and payments can be made either in instalments or all at once.
- **A payment guarantee** by which the government agrees to pay in full in case of non-performance by the purchaser.
- **A debt guarantee** by which the government secures a private entity's borrowings in case of default, e.g. the government guarantees repayment to creditors.
- **A revenue guarantee** by which the government secures a minimum variable income for the private sector partner. This income typically comes from customer user fees and this form of guarantee is common in roads with minimum traffic.
- **Arrangement for a revenue stream**, such as charges levied by the private sector partner on the users of the facility or service, e.g. road tolls or water rates.
- **Step-in rights allocated to project lenders**, allowing the public sector to replace the private operator with another operator (that fulfils the original requirements of the initial bid) when the project is under-performing.

In addition, another key element that arises from the definition used in this report is the risk sharing between the parties. According to International Monetary Fund (IMF) and World Bank documents, it is possible to identify three main categories of risk when implementing PPP projects:

- **Project risks:** These are i) construction risk, i.e. design problems, building cost overruns, project delays; ii) performance risk, i.e. availability of an asset, the continuity and quality of service provision; iii) demand risk, i.e. ongoing and future need for the service/asset with an impact on the project value and project revenues; and iv) residual value risk, i.e. the future market price of an asset.
- **Macroeconomic risks:** These are the financial risks, which relate to factors affecting financing costs, such as inflation, interest rates and exchange rates.
- **Political and regulatory risks:** These are changes in regulations and political decisions affecting the project, e.g. policy changes (including the tax policy) or new environmental rules.

In general, PPP risks vary depending on the country where the project is implemented, the nature of the project and the assets and services involved. A critical assessment of the transfer of risk in PPPs is included in Section 2.

A myriad of PPPs

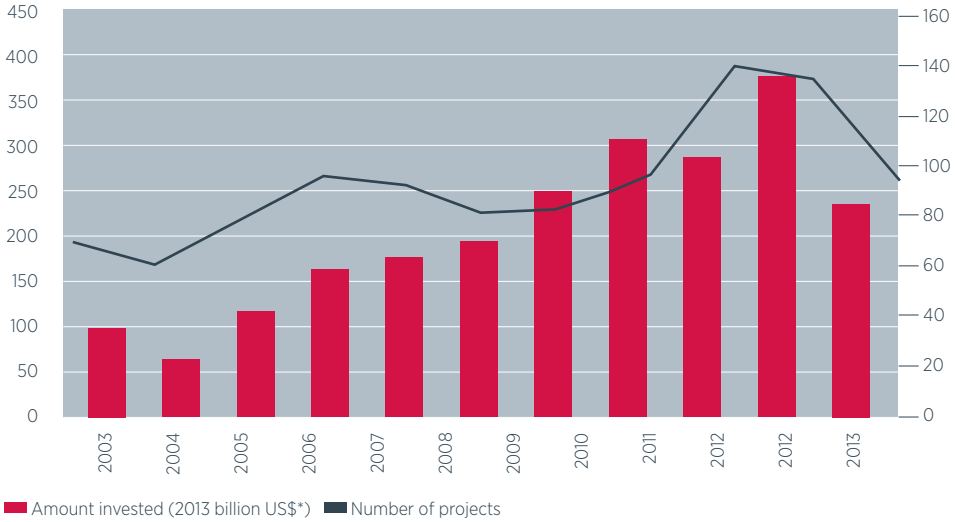
The vast literature on PPPs reveals at least up to 25 different types of PPPs. One of the most common ways of identifying them is in relation to the tasks that the private sector performs in the partnership or the investment responsibilities, and to some extent, the ownership of the asset. These types of PPP result from some combination of the following functions: design; build; develop; rehabilitate; finance; operate; maintain; own; transfer; and lease. The use of specific types varies greatly across sectors and countries.

In addition, a dual typology emerges from classifying PPPs in relation to the source of the private sector revenue, although the boundaries between these categories may be blurred.[3]

'User pays': Under this scheme there is a direct link between the private partner and the final user. The private partner is allowed to charge the public for using the facility, generally through paying a toll (e.g. water rates or motorway tolls), which can be supplemented by subsidies paid by government. The toll reimburses the private partner for the cost of building and operating the facility, which can revert back to the public sector at the end of the contract period. This model is the traditional PPP scheme used in road building and is the model that is most often used in Latin America. In some cases, these PPPs are also identified as self-sustainable initiatives.

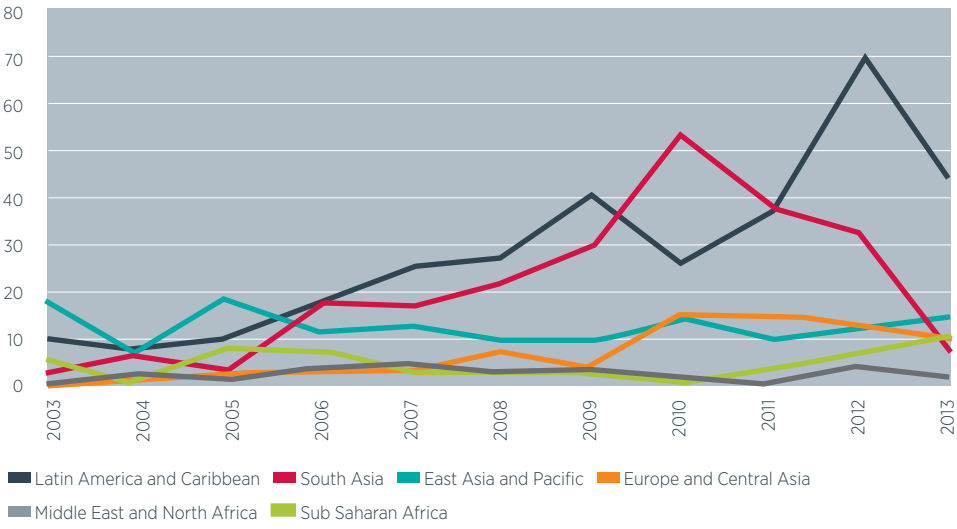
'Government pays': The private sector company provides and administers infrastructure for the public authority. The payment of the private partner comes only from regular payments by the public partner based on the level of service provided. The payments can depend on the asset or service being available at a contractually-defined quality or on the services delivered to users—such as a 'shadow toll' road, which is free for users, but where the governments pays

Figure 1: Total investment in PPPs and number of projects in the developing world, 2003–2013 (billion US$ in real terms*)



Source: Private participation in Infrastructure Projects Database (* Adjusted by US Consumer Price Index)

Figure 2: Investment in PPPs by regions, 2003–2013 (billion US$ in real terms*)



Source: Private participation in Infrastructure Projects Database (* adjusted by US Consumer Price Index)

a fee per driver to the operator. The Private Finance Initiative programme in the UK is an example of this.[4]

In practice, there is often some mixture of both public and user funding for either the construction and/or the service element.

Main features of the current trend – What do the figures show?

The last decade has seen a huge increase in the amount of money invested in PPPs in the developing world, with a focus on middle-income countries (especially Brazil and India) and on energy and transportation. However, infrastructure investment is, and is likely to remain, financed mainly by public sector resources, with private investors providing a small portion of infrastructure investment.

PPPs have increased significantly in the last decade in the developing world...

Eurodad's analysis of the World Bank's 'Private Participation in Infrastructure Projects Database' highlights historical trends and some important features. However, figures on PPPs should be treated with caution for two main reasons: a) although the World Bank (WB) database is the most comprehensive resource on private participation in infrastructure, it goes well beyond the definition of PPPs indicated in this report;[5] and b) different definitions of PPPs result in confusing reporting practices. Therefore, figures should be read as a useful indication of global trends and not as a basis for an extensive quantitative analysis.

Global trends of money invested through PPPs show two clear waves in the developing world. The first wave occurred during the early 1990s, while a second wave started in 2004. In times of deregulation and heavy reliance on private finance, in the early 1990s, investments in PPPs rose quickly until they peaked in 1997. The 1997-98 Asian financial crisis resulted in a great fall in investments through PPPs in the developing world. During that period, many contracts were renegotiated and there were a number of cancellations due to problems related to the allocation of foreign exchange risks between public and private partners. A big decline in investments was followed by a slow recovery, taking almost a full decade to regain pre-crisis levels.

As Figure 1 shows, the second wave of money invested through PPPs started in 2004. Over an eight-year period, investments through PPPs increased by a factor of six: from US$ 22.7 billion in 2004 to US$ 134.2 billion in 2012. In part, this can be explained by the way in which Gross Domestic Product (GDP) growth has driven the need for infrastructure development, but also by lower interest rates in developed countries driving investors to 'search for yield' elsewhere. Then, investments in PPPs fell in 2013 to US$ 84.4 billion, mainly due to a big decline in PPP projects in Brazil[6] and India. In Brazil, investments dropped by almost 60 per cent from 2012 to 2013, while in India the decrease was almost 80 per cent (see also Figure 2). Although complete figures for 2014 are not available at the time of writing, current estimates indicate that it is likely that the developing world will experience a third wave of PPPs in the near future.[7]

It is important to note that, contrary to what happened as a result of the Asian financial crisis, the 2008 economic and financial crisis did not produce a big decline in investments through PPPs in the developing world. Many countries put in place stimulus packages in response to the financial crisis, often highlighting infrastructure, and donors also provided support for private infrastructure investment in the financial crisis.

As Figure 1 also shows, the number of PPP projects increased over the last ten years, but more noticeable was the increase in the scale of the projects financed through PPPs. When comparing the number of projects financed with the total investment in PPPs, we note that the average size of projects increased from US$ 182 million in 2003 to US$ 322 million in 2013, but peaked in 2010 at US$ 410 million.[8] This is a sign of the growing trend in megaprojects in infrastructure.[9]

...but represent a tiny portion of infrastructure investments

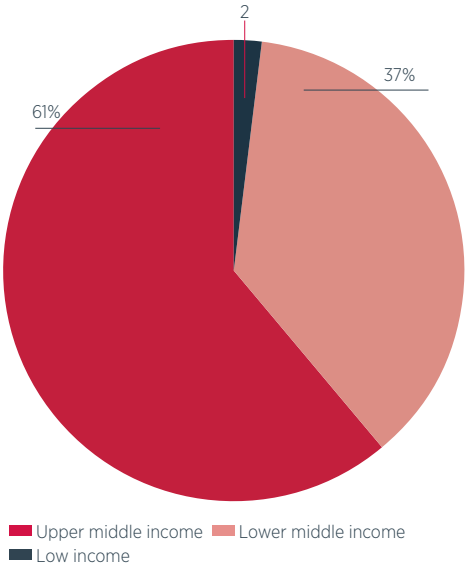
Nevertheless, in the aggregate, it is important to note that private finance provides a small portion of infrastructure investment in the developing world. According to the IMF World Economic Outlook 2014,[10] *"public infrastructure investment still dwarfs private, as infrastructure investment via public-private partnerships is still less than a tenth of public investment in advanced economies and less than a quarter of public investment in emerging market and developing economies"*. The World Bank,[11] in turn, has indicated a similar pattern for the last ten years in developing countries: *"private capital has contributed between 15 and 20 per cent of total investment in infrastructure"*. This means that the lion's share is still provided by the public sector, and this is likely to continue. Therefore, questions remain about why so much focus is placed on the private sector rather than improving public sector delivery.

PPPs are concentrated in higher income regions and countries

The majority of PPP investments have been undertaken in Latin America and the Caribbean and in countries with relatively higher incomes. Although figures show that PPPs have spread across countries in all regions, Figure 2 indicates that much of the growth of PPPs in the last decade has been driven by Latin America and the Caribbean, followed by South Asia, which experienced a significant growth starting in 2005, mostly because of investments in India as part of a major PPP programme with the support of the World Bank.[12]

When considering country-income groups, Figure 3 (overleaf) reveals that: over the last decade, 61 per cent of investment in PPPs was undertaken in upper middle-income countries (UMICs), 37 per cent in lower middle-income countries (LMICs), and just a mere 2 per cent in low-income countries (LICs). This pattern has been confirmed in a number of studies, including from the Organisation for Economic Co-operation and Development (OECD)[13] and the IMF.[14] As expected, PPPs tend to be more common in countries with large and developed markets to allow for a faster recovery of costs and more secure revenues. This implies a selective bias in PPPs, known as 'cream-skimming', which also occurs within countries, with investment directed towards affluent urban areas. This contributes to some of the inequitable outcomes of PPPs discussed in Section 2 of this report.

Figure 3: Investment in PPPs by country income group, 2003–2013 (%)



Source: Private participation in Infrastructure Projects Database

However, the meagre percentage of total investment in PPPs flowing to LICs does not mean that PPPs are not relevant in these countries. As Figure 4 shows, during most of the decade (a context of economic growth in the developing world) investments in PPPs, in relation to the size of the local economy (GDP), were higher in low-income countries than in upper middle-income countries. They were even higher in lower middle-income countries, with a more volatile trend in LICs. This pattern shows that LICs and LMICs are more vulnerable to the fiscal implications of PPPs that are discussed in Section 2 of this report. This is even more serious in the situation where there is an increase in the scale of PPP projects (as shown in Figure 1).

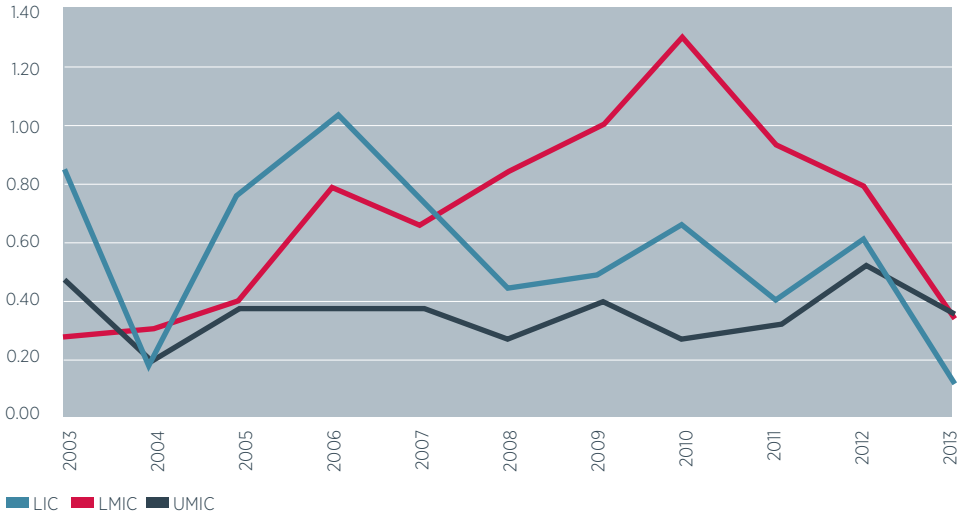
Box 1 shows the particular experience of two selected country case studies researched for this report: Tanzania, a low-income country; and Peru, a middle-income country.

PPPs focusing on energy and transportation

Over the past decade, investment in PPPs shows a strong focus on energy and transportation, in comparison to other sectors such as water and sewage and the telecom industry. As Figure 7 shows (see next page), more than half of PPP projects were in the energy sector (electricity and natural gas); while 37 per cent were in transportation (airports, seaports, roads and railways); and 4 per cent were in water and sewerage. This strong focus is in line with major initiatives promoted in the 2000s. For instance, the Initiative for the Integration of Regional Infrastructure in South America (IIRSA, to use its Spanish acronym) and the Mesoamerican Integration and Development Project, which promoted several PPP projects in the region. The IIRSA – currently one of the priority areas of the intergovernmental regional body, the Union of South American Nations (UNASUR) under the auspices of the South American Infrastructure and Planning Council – "*aimed at coordinating intergovernmental actions... with a view to building a common agenda to foster projects for the integration of transport, energy and communications infrastructure*".[15] In practice, this meant connecting different countries through big corridors to promote an export-focused approach based on the extraction of natural resources.

Although they represent only a tiny percentage of projects, PPPs in the water sector deserve a special mention, as water is both an essential service and a human right. Many PPPs in this key sector have been the result of a concerted push by the World Bank Group (WBG). In other words, the institution has generated demand for private investment rather than market forces.[16] At the policy level, the WBG has promoted sector reforms in favour of PPPs – most of the time as policy conditionality and as part of decentralisation policies (where subnational entities lack the budget for lumpy capital infrastructure investments).[17]

Figure 4: Investment in PPPs by country-income groups, 2003–2013 (% GDP)



Source: Private participation in Infrastructure Projects Database

The rationale behind PPPs – Why are they so popular?

PPPs are currently very high on the agenda of many governments and private sector companies, although their popularity varies across sector and location. Public and private sector actors have different incentives for engaging in PPPs. Understanding the reasons behind PPPs and the type of incentives that the different actors face is key for a substantive engagement in the current debate. In a very simplistic way, while private companies care about making money, in this case by delivering goods and services, governments are concerned about how to deliver public services, including their financing and management. However, current austerity measures and accounting practices create perverse incentives in favour of PPPs. PPPs are often "off balance sheet", i.e. their cost is not registered in the accounting books, which means that the cost of the project is hidden.

According to the World Bank's PPP Reference Guide,[18] under certain circumstances PPPs may help overcome some of the key challenges of infrastructure delivery, including insufficient funds, poor planning and project selection, inefficient or ineffective delivery and inadequate maintenance. In other words, arguments in support of PPPs might focus on the capacity of the private sector to deliver high-quality investment in infrastructure, while private sector participation reduces the need for the state to raise funds upfront to develop and manage these projects. However, in practice, governments might have different incentives for engaging in PPPs. Here we aim to unpack some of these incentives, focusing on three main points (some of which will be analysed in more detail in Section 2):

- **The fiscal constraint:** Given the limited public resources of national (and subnational) governments to finance infrastructure development, and to close the "infrastructure gap" that most countries face, PPPs can be seen as a mechanism to allow the mobilisation of private sector resources to implement infrastructure projects. This means that PPPs are seen as a way of leveraging private finance that the public sector could not provide – also known as the additionality argument.[19] However, the PPP approach has different implications depending on whether it is the case of "government pays" or "user pays" PPPs. In the case of the former, there is usually a higher cost of capital involved in private finance, but the project is backloaded or spread out over its lifespan. In practice, this relieves the pressure on upfront government funding for infrastructure assets. In the case of "user pays" PPPs, governments might use PPPs as a way to

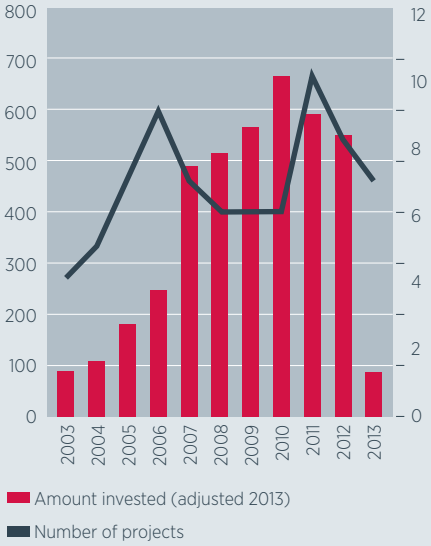
> For the private sector, the profitability (or "bankability") of PPP projects is crucial.

Box 1: PPPs in figures – the cases of Tanzania and Peru

Tanzania – the case of a low-income country: Over the period 2003–2013 there has been over US$ 3.7 billion in private participation in infrastructure in the country (see Figure 5). More than 80 per cent of private sector money was invested in energy and telecommunication, while minor amounts were invested in sectors like transport and water and sewerage. However, according to the definition included in this report, just over US$ 1 billion of these activities relates to PPPs. In what represents a change in its historical pattern, it is worth noting that Tanzania is currently leading the planning process of a massive PPP pilot project: the Central Corridor, which is an integrated transport programme (road, rail and port) across five countries (Burundi, the Democratic Republic of the Congo, Rwanda, Tanzania and Uganda) with an investment need of approximately US$ 18 billion[20]. In addition, the Bus Rapid Transit project is being implemented in Dar es Salaam, starting in 2002 and continuing to the present day.

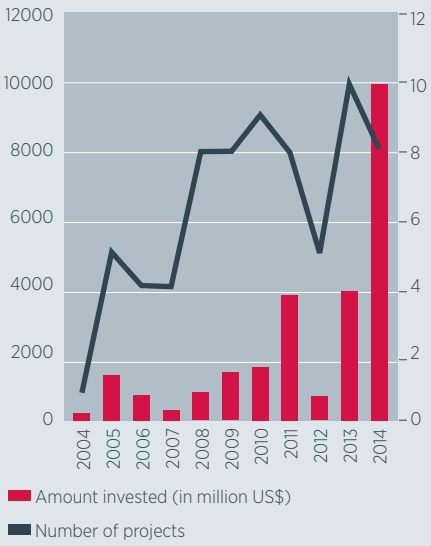
Peru – the case of a middle-income country: Peru started implementing PPPs in the 1990s. Private investment in PPPs was around US$ 24.5 billion over the last decade. As Figure 6 shows, important growth took place in 2014, with a 2.6 time increase in investment compared with the previous year. This was mainly due to megaprojects like the basic metro network in Lima and Callao, and the construction of the Southern Peruvian gas pipeline. Around 80 per cent of the investments in PPP projects have been in transport, electricity and hydrocarbon, but there have also been some PPP projects in health, education and prison facilities. As official forecasts anticipate a global slowdown and lower regional growth, the Peruvian government has decided to promote economic growth by boosting private sector investments in PPPs.[21] In 2015, estimates indicate that the investment in PPPs will be around US$ 2.2 billion (1.1 per cent of GDP). This means an increase of over 100 per cent compared to 2014.

Figure 5: Private participation in infrastructure in Tanzania, 2003–2013 (in million US$)



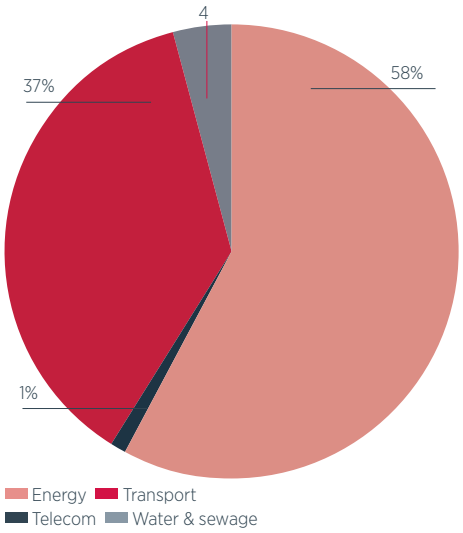
Source: Private participation in Infrastructure Projects Database

Figure 6: Private participation in infrastructure in Peru, 2004–2014 (in million US$)



Source: Proinversion

Figure 7: Investment in PPP projects by sector, 2003–2013 (in %)



Source: Private participation in Infrastructure Projects Database

introduce user funding, without assuming the political cost of doing it. In both cases, PPPs might be seen as a way of freeing up public sector resources.

- **The policy and legal frameworks:** Fiscal deficit targets usually constrain governments' capacity to increase their spending (reinforced by the austerity measures that emerged after the 2008 financial and economic crisis). Current PPP accounting practices often allow governments to keep the project and contingent liabilities (i.e. payments required from governments in certain circumstances, e.g. if the exchange rate of the domestic currency falls or if the demand falls below a specified level) "off balance sheet," as supporters claim that it is the private sector and not the government that is borrowing to finance a project. Although "government pays" PPP projects represent a form of borrowing, this practice increases governments' incentives to use PPPs because the costs and government future debts do not appear on their budget line (on-budget) when the project is done.
- **The efficiency gains:** By using private sector resources and expertise, PPPs have the potential to improve the quantity and quality of service delivery, thus creating better "value for money" compared to

traditional public procurement, for the public sector and ultimately for the general public. These efficiency gains, needed to compensate for the higher costs of private finance, might come mainly from improvements in design, construction and operation of the asset as a result of the private partner intervention.

For the private sector, the profitability (or "bankability") of PPP projects is crucial. Depending on the sector, the asset and the location, PPPs represent a very attractive business opportunity for the private sector actors involved, such as construction and engineering companies, service providers (for example, healthcare service providers), banks and also increasingly institutional investors. In the context of uncertain economic growth, the delivery of infrastructure services – previously provided by the public sector – represents for the private sector the 'next frontier to conquer.' According to the World Economic Forum (WEF),[22] the demands of institutional investors worldwide (such as pension funds, insurance companies, endowments and sovereign wealth funds), holding trillions of dollars under management and seeking a diversified portfolio of infrastructure assets with attractive returns, have exerted pressure to launch infrastructure funds, thus contributing to the "financialisation" of infrastructure. As the WEF argues,[23] in the view of institutional investors, *"infrastructure project risk-return profiles present an attractive alternative investment – especially with real fixed income returns being near zero in the wake of the global financial crisis."* As infrastructure projects have high upfront costs, are often governed by state legislation, such as the provision of water and energy, and often need time to generate revenues, the commercial risk of such projects is quite high. PPPs often represent a less risky way of investing, as they give private sector actors a flow of income for a long period of time, usually underwritten to a great extent by the government itself.

The different players engaged in PPPs

A wide range of institutions, donor governments and corporate bodies have been actively promoting PPPs in developed and developing countries alike. They have exerted efforts at all levels: global, regional, sectoral and national. This has resulted in multiple donor facilities and initiatives with the objective of enabling the business environment for PPPs to flourish.

At the global level the multilateral development banks and, more recently, the Group of 20 (G20) have been active players in this agenda.[24] The World Bank Group (WBG) has played a leading role, followed by regional development banks such as the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD), the Asian Development Bank (ADB), the African Development Bank (AfDB) and the Inter-American Development Bank (IADB). Most of these institutions have specific strategies or programmes in place to promote PPPs.[25] Not only have they contributed to the promotion of PPPs at the policy level – through policy conditionality, technical assistance and tailored policy reforms – but they have also used their public funds to support private sector companies participating in PPP projects. Recently created institutions, such as the BRICS' New Development Bank and the China-led Asian Infrastructure Investment Bank, will also have a strong focus on infrastructure financing and on PPPs as a preferred financing mechanism.[26]

The G20 has also promoted the PPP approach in its different initiatives and workstreams, including the Investment and Infrastructure Working Group and the Development Working Group. The 2010 G20 Summit in Seoul released a multi-year action plan on development,[27] which kicked off an intense work programme for the group in this area, including a one-year term High-Level Panel for Infrastructure Investment (2011),[28] a Study Group on Financing for Investment (2013),[29] and more recently a Global Infrastructure Initiative (November 2014). In 2014 the G20's focus sharpened on trying to create an infrastructure 'asset class' that institutional investors, such as pension funds and sovereign wealth funds, can invest in. According to a report from the WB prepared by the G20,[30] OECD-member countries (including pension funds, insurance companies, endowments and sovereign wealth funds), held over US$ 79 trillion in assets under management, but have only around one per cent of their portfolio exposure in infrastructure.

At the bilateral level, the European Commission and key donor governments have also promoted and financed PPPs in developed and developing countries. For instance, in 2012 the European Commission launched the EU Project Bond Initiative to finance infrastructure projects in Europe,[31] while the UK, Germany and Sweden have specific initiatives to promote PPPs as part of their development cooperation strategies.[32] This work has been carried out by development agencies and national development banks and national development finance institutions. In some cases their work on PPPs is linked to aid conditionalities, but also to aid for trade and trade agreements.[33] In practice, this is also a way of supporting their own domestic companies in their interventions in developing countries.

Furthermore, international consultancy, accounting and legal firms have developed highly profitable workstreams on PPPs. These consultancies include mainly McKinsey & Company and the 'big four' global accounting firms (PwC, Deloitte, KPMG and Ernest & Young). They have played an active role in advising the UK government and others around the world on how to structure PPP projects, while publishing several reports to support and share their views. They make profits through very high fees from legal and consultancy work commissioned by both public and private sector clients. They also do worldwide reviews of policies, legal frameworks and practices with PPPs that rival anything that any public body has done so far.[34]

The World Economic Forum (WEF)'s Global Strategic Infrastructure Initiative – as well as regional initiatives – have also driven the development of PPPs. For instance, the African Strategic Infrastructure Initiative (ASII), led by the WEF in partnership with the AfDB and supported by the African Union Commission and the New Partnership for Africa's Development (NEPAD) Agency, has developed the Central Corridor Project as a model PPP, which is intended to accelerate and replicate PPPs throughout the continent.[35] This project is part of the Priority Action Plan of the Programme for Infrastructure Development in Africa (PIDA), jointly developed by the African Union Commission, the NEPAD and the AfDB. Although the AfDB is called to address the infrastructure gap of the continent with public resources, as PIDA is envisioned, PPPs will be the preferred financing mechanism to leverage different sources of funds.[36]

The driving role of the World Bank Group (WBG)

The WBG has been involved in promoting policy reforms, as well as providing advice and finance relating to PPPs for many years. Over the period 2002–2012 the Group's support to PPPs increased more than three-fold, from US$ 0.9 billion to US$ 2.9 billion.[37] This support is expected to increase further: the 2013 WBG strategy announced that it intended to "*increasingly promote public-private partnerships*" and "*to consider PPPs as 'cross-cutting solutions*".[38]

The WBG intervenes at different levels and targets both public and private sector actors. The WBG works upstream on policy and institutional issues, and downstream on finance and the execution of projects. Most of the upstream work is provided by the World Bank, and complemented by the PPP Group (formally the "PPP Cross-Cutting Solutions Area"), and the Public Private Infrastructure Advisory Facility (PPIAF).[39] Downstream work is carried out by the Bank's private sector arm, the International Finance Corporation (IFC), and the Bank's political risk insurance arm, the Multilateral Investment Guarantee Agency (MIGA). The division of upstream and downstream work need to acknowledge, however, the possible conflict of interest arising from the advisory role of the IFC, which advises

national and local governments on how to improve their 'investment climate,' while they support private sector governments to do business there. In addition, the WBG has been the G20's go-to agency on PPPs by producing several reports on the issue, including a PPP Reference Guide. For instance, a report on financing investment, which stresses the need to support PPPs with public guarantees and subsidies,[40] and a report on constraints to the financing of infrastructure,[41] which sets out a framework designed to encourage governments to undertake more and better PPPs.

Given the WBG's dual goal of ending extreme poverty and promoting shared prosperity, special consideration needs to be given to the rationale for supporting PPPs. According to the WB's IEG,[42] the Group's thinking "*is based on the claim that PPPs have the potential to close the infrastructure gap by leveraging scarce public funding and introducing private sector technology and innovation to provide better quality public services through improved operational efficiency*". The IEG also states that "*the underlying rationale is that PPPs can help improve infrastructure, spurring economic growth that eventually reaches the poor ('trickle down' effect)*". This indicates that the Group's activity is based on questionable assumptions, even challenged by the findings of a 2015 IMF Staff Discussion Note addressing the causes and consequences of income inequality.[43]

Although no one can contest that infrastructure is important for economic growth and for reducing poverty and inequality, the empirical literature raises a lot of questions in relation to the type of infrastructure that matters most. For instance, Garsous (2012)[44] argues that "*the less developed the country, the more likely infrastructure [is] to matter. The more developed a country is, the more other dimensions such as bottlenecks, diseconomies of scale, network effects, or technological lags tend to matter more than the aggregate infrastructure stock.*" In addition, the impact of infrastructure on poverty reduction might depend on the kind of infrastructure and vary across sectors.

Box 2: WBG support to PPPs – three key concerns

The IEG evaluation report on WBG support to PPPs, released in July 2014,[45] presents a number of interesting findings and indicates WBG performance in this area. Some of these findings constitute red flags for WBG engagement on PPPs and challenge the role of the Bank in this field. Here we present some of the key elements of the IEG report and the internal reactions to them:

1. Internal coordination problems: On the basis of an analysis about how PPPs fit into the overall strategic framework of the WBG, the IEG concludes that "*although PPPs are included in many strategies and individual conceptual notes, there is no World Bank Group-wide guidance to implement PPPs as 'cross-cutting solutions areas' and to translate the Bank Group's strategic intentions into an operational plan*". In response to this, in the second half of 2014, the WBG operationalised the "*PPP Group*" (formally the "PPP Cross-Cutting Solutions Area"), which is aimed at harmonising the PPP agenda across the Group and, according to management, is expected to deliver the strategic and operational direction called for by the report.

2. Inadequate monitoring systems result in a lack of evidence on poverty impacts: The IEG report shows that "*the existing monitoring and evaluation systems primarily build on a PPP's business performance*". However, as the report states, "*PPPs need to be measured in a more multifaceted manner to shed more light on important aspects of public service delivery, for instance, access, pro-poor aspects, and quality of service delivery. But such data are rare*". As a result, the lack of evidence on poverty impacts is rather shocking: of the 128 WB PPP projects in the sample, the number with results on the following six dimensions appear in parentheses: access to services (14); pro-poor (3); quality (10); efficiency (8); financial (6); and fiscal (1), while the data for IFC investment in PPP projects is even more disappointing: of the 147 projects in the sample, the results are: access to services (50); pro-poor (5); quality (14); efficiency (17); financial (43); and fiscal (6). Also very problematic is the fact that monitoring does not cover the lifespan of the projects, and thus does not register the impacts of the projects on the ground. In general, data is only collected after disbursement when, very often, the project is not operational. On that basis, the IEG concludes: "*If the World Bank Group plans to intensify its PPP support as envisaged in its latest strategy, arrangements are needed to monitor the performance of PPPs throughout major parts of their lifespan.*" In their response to the IEG report, both management and the board of directors of the WBG agree with the need to take action on this front. Management says that "*the World Bank Group needs to move past the current state of 'data scarcity' on the effects of PPPs on the poor in order to fully appreciate the effect PPPs play in realizing the World Bank Group's twin goals of reducing extreme poverty and boosting shared prosperity in a sustainable manner*". While the Committee on Development Effectiveness (CODE) of the board of the WBG says that "*IFC should apply a pro-poor lens to measure PPP impact. They underscored the importance of improving the World Bank Group's monitoring and evaluation systems to better systematically record data about the impact of PPPs on poverty reduction, and to ensure such monitoring and evaluation work feeds back into future PPP project design and implementation*".

3. The strategic advice of the WBG overlooks key considerations: The IEG has not found evidence on the Group's advice as to whether private sector involvement (in the form of a PPP) was the best option given the relevant country-level circumstances: "*the WBG's approach to PPPs has been based on the assumption that involving the private sector is a good thing (…) public sector comparators – systematically comparing PPPs against the public sector for value for money to justify private sector involvement – were not a part of the WBG activities*". In addition, the WBG has not paid attention to hidden debts (contingent liabilities) of PPPs. At the project level, contingent liabilities are "rarely fully quantified" and assistance has only been provided if requested by the government. Worryingly, upstream sector reforms have failed in half of the cases: "*Most of the upstream work aims at sector reform, which, however, failed in almost half of the cases because of the complexity and political implications of the reform processes. Advice on how to manage fiscal implications from PPPs is rarely given.*" According to the management response, the PPP CCSA "*is expected to provide analysis, guidance and tools to strengthen the group's capacity to support client countries decision making about partnering with the private sector, including assessing potential fiscal liabilities associated with PPPs.*" Meanwhile CODE "*agreed with the need for more ex ante fiscal analysis and a deepening of political economy expertise by IFC,*" and "*stressed the importance of clearer communications about PPPs' benefits and transaction costs*".

While it is possible to say that PPPs do potentially reduce poverty by contributing to public service delivery, such as water, roads and electricity, there are many different transmission channels to be considered (the cost of increasing formality, the cost of tariffs and the reduction in employment, among others) and the evidence is very limited (see Section 2). As the IEG acknowledges, economic growth does not necessarily lead to sustainable development or to poverty reduction and "*deliberate action is often required to ensure that project outcomes and transmission channels focus on the poor*". In other words, for PPPs to serve the WBG's strategy they will have to be explicitly targeted towards poverty alleviation, for instance, extending water or electricity systems to poorer neighbourhoods or rural areas.

Although the WBG claims that it "*has assisted 134 countries with PPP-targeted interventions*", its support has a strong bias towards MICs. Investments from the IFC and MIGA have mostly benefited PPP projects in middle-income and upper-middle-income countries (65 per cent and 72 per cent respectively), while the Bank has targeted a higher share of low-income countries (68 per cent). Brazil, China and India have received particular attention, with the highest number of projects per country. This strong focus goes in line with the trends presented above in relation to regions and income country groups. It has also been the point of civil society organisation (CSO) concerns,[46] as it raises the question of whether WBG interventions are "additional" or simply supplanting private finance.

> At the project level, contingent liabilities are "rarely fully quantified" and assistance has only been provided if requested by the government.

2 Are PPPs delivering on their potential benefits? A critical assessment of PPPs

This section suggests a framework for a systematic assessment of PPPs. The objective is to contribute to the level of understanding around PPPs, which are proposed as a key component of the "financing for development" agenda. In our view, it is vital to develop the tools and capacity in order to identify whether and under what circumstances it is desirable to use PPPs. As the current narrative features PPPs high on the agenda of many governments and institutions, it is crucial to take into account what has happened so far and whether PPPs have delivered on development objectives.

Given that PPPs can be considered as one form of procuring goods and services, a comprehensive cost-benefit analysis, covering a broad range of issues, should be put in place to allow for an informed procurement decision. For instance, the OECD[47] recommends that governments should choose the PPP option only if it delivers better "value for money" than the public option. This refers to the OECD's "value for money" analysis, which includes affordability, efficiency and competition considerations. This analysis has been highly criticised by civil society organisations and academics[48] for being too restrictive and biased towards the PPP option, and in some cases, for rationalising a decision already taken at the political level.

This section suggests a framework to analyse PPPs, which includes the following key components:

A Budgetary affordability: this means assessing the cost and fiscal implications of PPPs over the long-term, including both on- and off-budget liabilities.

B Efficiency gains and risk assessment: this means assessing whether improvements in design, construction and operation of the asset take place, and developing a fair and comprehensive evaluation of all the risk involved.

C Poverty reduction and the fight against inequality: this means assessing the sustainable development impacts of PPPs and whether PPPs actually help to reduce poverty, benefit a broad group of stakeholders, particularly the poor, and contribute to the fight against inequality, without creating negative impacts on the environment.

D Democratic systems in place: this means assessing the institutional framework in place, the project selection criteria, the ability to adequately negotiate and manage PPP contracts, and to monitor projects throughout their lifespan. This also implies considerations in relation to transparency, including contract disclosure, accountability mechanisms in place and provisions and practices of stakeholders' participation.

On the basis of this framework, this section presents an analysis of PPPs from a development finance perspective. This is based on a wide range of existing literature on PPPs, with both theoretical and empirical evidence, and on two country case studies carried out by Afrodad and Latindadd, in Tanzania and in Peru, respectively. The focus is placed on the budgetary affordability and on the level of efficiency of PPPs in delivering the services. While democratic governance mechanisms and equity and poverty considerations are key for the assessments of PPP projects and their success, it is fair to say that they have been insufficiently studied up until now, and more research is needed on these aspects.

Cost and fiscal implications of PPPs

Given the pressure on public resources to finance sustainable development needs, it is crucial to assess the direct and indirect costs and benefits of any financing mechanism. This section shows that there is a rapidly growing body of evidence that warns against the explicit and implicit costs of PPPs. They are the most expensive method of financing, significantly increasing costs to the public purse. In addition, the fiscal implications of PPPs are not just direct and stated in the contract, but also arise from non-transparent contingent liabilities that operate as a threat to fiscal stability and from implicit liabilities, when governments have to rescue PPP projects if they underperform.

PPPs are an expensive way to finance projects

The cost of financing is usually more expensive in PPP projects than in public sector works. National governments can usually borrow money at lower interest rates than private sector companies. This is mainly because lending to private companies is riskier than to governments, which often entails a lower risk of defaults. A 2015 review by the UK's National Audit Office (NAO) finds "*that the effective interest rate of all private finance deals (7%–8%) is double that of all government borrowing (3%–4%).*"[49] In practice, this means that the costs of financing of PPP-operated services or infrastructure facilities are twice as expensive for the public purse than if the government had borrowed from private banks or issued bonds directly.

In addition, private sector companies are expected to make a profit on their investment. In the case of 'government pays' PPPs this has to be added to the overall cost of the investment, while in the case of 'user pays' PPPs this is going to increase the cost for users.[50] While there is little information available on the returns made by private investors in PPP projects – due to commercial confidentiality issues (see Section 2.D on democratic governance) – the UK's NAO 2012 review[51] indicates "*an expected return to equity of between 12 to 15 per cent at the point contracts are signed.*" Equity investors might also increase their returns when exiting the project, i.e. equity investors who invest in the project start-up – known as primary investors – might sell their shares in a project soon after construction is completed, allowing them to earn rates of return of 15 to 30 per cent per year.

A 2007 World Bank report on the challenges of African growth[52] illustrates private investors' natural tendency to seek (and maximise) returns, stating that "*the main brake on private investment in infrastructure is limited profitability*". The report shows that, in the case of developing countries, the returns to capital required by investors are higher than in developed countries (due to higher perceived risks): "*returns to capital in low-income countries have to be at least 2 per cent to 3 per cent higher than in richer developing countries, and twice the returns expected in developed countries*". This poses additional challenges for developing country governments when engaging in PPP contracts.

Higher construction and transaction costs

PPP projects often entail higher construction costs, which has an impact on the final cost of the projects. In some cases, the whole-of-life costing – which results from full integration, under the responsibility of one party, of design and construction with ongoing service delivery, operation, maintenance and refurbishment – might reduce total project costs. However, construction costs are expected to be higher in PPPs than in traditional public procurement because of the explicit recognition and pricing of construction risks transferred to the private partner. An EIB report,[53] which compares the cost of 227 new road sections across 15 European countries

> PPPs are very complex arrangements with high costs associated with negotiating, preparing and managing the projects.

of which 65 were PPPs, "*estimate that the ex-ante cost of a PPP road to be, on average, 24 per cent more expensive than a traditionally procured road*".

PPPs are also very complex arrangements with high costs associated with negotiating, preparing and managing the projects. Many elements are important to consider: first, some of these costs are associated with profit margins of both the private partner and its extensive supply chain, and the not inconsiderable legal and financial advisors' fees to structure and negotiate the deal. Second, lengthy processes involved in negotiating PPP contracts mean that they are no quicker than public sector financing for developing infrastructure than their public sector counterparts. Third, PPPs constrain the capacity of governments as it can be difficult to build flexibility into PPP contracts, and changes may be expensive. This limits the capacity of governments to enact policy that might affect particular projects. Policy or demographic changes, along with technological changes, are the major sources of "fiscal surprises" in PPPs, and the main reason for project failure.

Furthermore, the transaction cost of setting up the contractual structure and carrying out adequate due diligence can make it unattractive for smaller deals. If a PPP is the preferred financing mechanism, it is expected that larger (or "megaprojects") will be pursued. According to a study by Bent Flyvbjerg from Oxford University's Said School of Business, the risks and complexities multiply along with the scale of the projects.[54] Although delays are common in the construction phase of both public and private sector projects, this is particularly problematic in larger projects, and they cause both cost overruns and benefit shortfalls. Larger projects also increase the likelihood of giving preference to multinational companies, which have greater resources to implement them, thus crowding out local businesses.

Limited competition

PPPs' high tender and transaction costs, along with complicated and long-term contracts, means that few companies have the capacity to apply for projects, reducing the governments' choice and competition in tendering processes.[55] Limited competition – due to natural monopolies of water systems and electrical distribution – also contributes to increasing the final project cost and increases the opportunities for corrupt behaviour. For instance, according to Estache and Serebrisky (2004),[56] in transport infrastructure the number of bidders is not much higher than two or three, and this sector is highly concentrated internationally, with companies from the global north playing a predominant role in the construction and transport global market.

All too often competition is also limited after a PPP is awarded due to two main reasons. First, the "preferred bidder" stage – applicable to a multi-stage bid process, in which a company has been selected but the contract has not been signed – often opens the possibility for increasing the price or changing the specifications of the project, thus eroding the initial value for money of the project.[57] Second, PPPs are all too often renegotiated.[58] In most cases this renegotiation process entails important costs for the public sector due to the lack of competition and transparency, and the privileged position of the private sector company. According to Shaoul (2009),[59] limited competition creates increased risk for the public sector because the companies are large and powerful enough to take on the regulators in the case of conflict and forced contract renegotiation on more favourable terms. The evidence shows that this has a direct impact on the success of projects. IMF staff warned against this in a 2014 conference on infrastructure financing in Central Africa:[60] fifty-five per cent of all PPPs get renegotiated, on average every two years; an increase in tariffs occurred in 62 per cent of all renegotiations; an automatic pass-through to tariffs of increases in cost happened in 59 per cent of the cases, and postponement and a decrease in private sector obligations in 69 per cent. According to Estache and Serebrisky (2004),[61] "*while governments gained in the short term from any proceeds and the low level of public investment, the renegotiations led to higher expenditure via up front capital grants, subsidies and explicit debt guarantees to the private sector to make the schemes viable*."

Poor planning and project selection

Overcoming planning and project selection problems is critical for reducing the final cost of the project. Accurate demand projection is also crucial for cost certainty. As the WB PPP Reference Guide[62] recognises, many infrastructure projects fail due to problems in the planning and selection process: "*the analysis underpinning project selection is often flawed, so projects that appeared to be cost-benefit justified turn out not to be so in practice. Benefits are often over-estimated, resulting in projects that are larger or more complex than is justified by demand for services, while costs are often under-estimated*".

While some might argue that private sector participation can improve project analysis and selection, the evidence shows quite the contrary. Some researchers have stressed the "optimism bias" of PPPs, as a strategic overestimation of demand is common practice. According to Estache and Saussier,[63] the evidence of Spain is revealing: *"Spain has ended up closing a large number of recently built regional airports and train stations due to a lack of demand. Many of its toll roads, also built as PPPs, are just financially unsustainable."* This happens due to weaker incentives for rigorous analysis on both the private and the public sector sides. If the private sector partner does not bear the risk associated with roads (traffic risk), or other project risks, this is even more evident. In the case of the public sector, as mentioned below, incentives for rigorous analysis are weaker as a result of accounting practices which obscure the costs and risks the government bears. An emblematic case from Tanzania can be mentioned here. In 1995 a PPP project saw the state-owned electricity company, Tanesco, sign a power purchasing agreement with Independent Power Tanzania Limited (IPTL).[64] In 2002 IPTL started supplying power to the national grid. According to a 2005 report from the South African Institute of International Affairs,[65] *"the project has turned out to be a huge burden on the country's economy."* The deal was highly contested on the grounds of cost, the choice of technology and the projected demand for power. During its first year, IPTL cost US$40 million in capacity payments alone – i.e. payments to IPTL based on how many megawatts of electricity it made available – and functioned at less than 10% capacity. There were also allegations of corrupt payments to government officials and planning problems. The project was approved by three government officials without a proper feasibility study and without consulting the necessary stakeholders. As the South African Institute of International Affairs states,[66] *"if Tanesco had followed proper procedures, government would have found that the problem was not insufficient generating capacity but rather a lack of gridlines."* The project costs Tanesco US$3 million a month in charges to IPTL to buy electricity that it never needed. If PPPs are perceived as the "easy" way to solve the lack of fiscal space (and to close the mythical

Box 3: The very costly example of the Queen Mamohato Memorial Hospital in Lesotho

In 2006, the government of Lesotho launched a PPP to build a national hospital to replace the aging and outdated main public hospital, Queen Elizabeth II, and to upgrade the network of urban filter clinics. Under the agreement, a private sector consortium called Tsepong[67] was responsible for designing, building and operating the 425-bed hospital and a network of refurbished urban clinics for 18 years. The PPP is an availability-based model, using performance-based contracts. This means that the Lesotho government provides the private sector operator with an annual fixed service payment for delivery of all services and that the healthcare network has to meet all performance standards in order to qualify for payment.

The WBG participated in the project and it also received support from donor countries. The International Development Association (IDA) provided a US$ 6.25 million grant, as administrator of the Global Partnership for Output Based Aid (GPOBA). The IFC advised the government in structuring the PPP. The project was also supported by technical assistance funds from the governments of the Netherlands and Sweden. This PPP is the first for a hospital in Africa and is seen as a flagship model to be replicated across Africa.

The hospital was built at a cost of US$ 153 million, financed through a mixture of public and private funds. The government of Lesotho put in US$ 58 million in direct finance (capital payment plus 'enabling works' such as sewage system and electricity). The Tsepong consortium put in US$ 474.6[65] in equity capital, plus a US$ 94.9 million loan from the public Development Bank of South Africa (DBSA). Because the Tsepong will repay the loan from the fees it receives from the government, the loan is registered as a private sector contribution. However, the loan was signed by the government of Lesotho, which provided guarantees, i.e. if Tsepong defaults on the loan, the government of Lesotho will have to pay, a scenario that is not fully unexpected as the Tsepong is already reported to have defaulted on a number of its loan repayments. Worryingly, the loan is worth ten times the annual budget of the health ministry, which poses a huge risk for the government. This financing structure also reveals that the vast majority of the money comes from public sources – DBSA is a bank owned by the government of South Africa.

Although the World Bank reports some satisfactory results,[68] these are highly contested. This PPP project is an example of very risky and expensive finance. A report launched in 2014 by Oxfam and the Lesotho Consumer Protection Association (LCPA) shows that the PPP hospital and its three filter clinics:

– cost US$ 67 million per year – at least three times what the old public hospital would have cost today – and consume more than half (51 per cent) of the total government health budget;

– have required a projected 64 per cent increase in government health spending over the next three years;

– are diverting urgently needed resources from primary and secondary healthcare in rural areas where mortality rates are rising and where three-quarters of the population live;

– are expected to generate a 25 per cent rate of return on equity for the PPP shareholders – this rate is underwritten by taxpayers' money;

– are costing the government so much that it believes it will be more cost effective to build a brand new district hospital to cater for excess patients rather than pay the private partner to treat them.

Source: Oxfam (2014)[69] and Hildyard, Nicholas (2014)[70]

"infrastructure gap"), each PPP project will tend to be perceived by decision-makers in government as a "zero-cost project." This will lead to poor project selection, poor project preparation, and the risk of too many projects that are unaffordable to the government. Second, the inflexibility of PPP contracts – normally ranging from 15 to 35 years – may also exacerbate planning challenges and generate additional cost. As the WB PPP Reference Guide acknowledges, "although changes in traditional public procurement also imply added costs, these are typically lower than under a PPP, since the absence of long-term contractual commitments allows easier recourse to the market and competitive pressure."

The black hole of contingent liabilities

PPPs have significant fiscal implications that need to be spelled out and assessed properly. The historical experience of several countries in the developed and developing world shows that the fiscal implications of PPPs pose a huge risk to the public sector that should not be underestimated.[71] This should provide a clear lesson for other countries, particularly in times of budget constraints.

Fiscal implications of PPPs result from:

- **Direct liabilities:** These are the payment terms set in the contract. They may take different forms. For instance, "viability gap" payments, i.e. capital contributions to ensure that a project that is economically desirable but not commercially viable can proceed; "availability payments", i.e. a regular payment over the lifetime of the project conditional on the availability of the service or asset; or "output-based payments", i.e. payments made per unit of service. Once agreed these are stated in budget laws, although reporting and accounting for PPPs is country specific.[72]
- **Contingent liabilities:** Payments required from governments if a particular event occurs, e.g. if the exchange rate of the domestic currency falls or if the demand falls above a specified level. Therefore, the occurrence, value and timing of the payments are outside the control of the government and are currently treated "off budget". Most of the time they are non-transparent to the public – or even to national parliaments, as they are not easily and fully quantified.

There are two different types of contingent liabilities:

- **Explicit contingent liabilities:** Most commonly public guarantees. The rationale for providing these guarantees stems from reducing or eliminating the risks incurred by the private sector, e.g. exchange rate, inflation, prices and demand for the given service, among others.
- **Implicit contingent liabilities:** These depend on the expectations by the public or pressure by interest groups, and are triggered by cases of underperformance. For instance, as PPPs often concern strategically significant social and economic sectors, the public sector often ends up bailing out the project. In some more problematic cases, it bails out the private sector company instead of paying the political and social costs of disrupted or discontinued services, which in turn results in private debts being shifted to the public sector.

Experience shows that the fiscal implications of PPPs can exacerbate major financial crises, or can even be the source of crises. An operational note released by the World

> There are some studies that refer to the positive impacts of private sector participation in service delivery and management, but the evidence is not conclusive.

Bank in 2014 takes stock of many different examples where macroeconomic crises are closely related to the performance of PPP projects.[73] In the late 1990s, several Asian countries suffered impacts from the regional financial crisis due to PPP contingent liabilities that transformed into immediate obligations. In Hungary, after several failures, the government took a very critical approach and placed a moratorium on new PPPs.[74] According to the World Bank's note "*all PPP road projects in countries affected by macroeconomic crisis (Greece, Portugal, and Spain recently, and previously Malaysia and Mexico) simultaneously suffered demand challenges (and faced bankruptcy risk) creating a systemic risk*".[75] The decrease in the demand for the PPP service (so-called "demand challenge") arises as a result of lower economic activity during the crisis, which results in a knock-on effect on the public sector.

Currently there are perverse incentives to treat PPP contingent liabilities as "*off balance sheet*", which undermines sound fiscal management. A 2004 ruling by Eurostat, the EU's Statistical Office, recommends "*that the assets involved in a public-private partnership should be classified as non-government assets, and therefore recorded off balance sheet for government, if both of the following conditions are met: 1. the private partner bears the construction risk, and 2. the private partner bears at least one of either availability or demand risk*".[76] This has generated strong opposition from the IMF, which interprets Eurostat's decision as "problematic". The IMF argues that "*since the private sector typically bears most construction risk and availability risk, the decision is likely to result in the majority of PPP assets being classified as private sector assets, even though the government will bear most demand risk*".[77]

Both IMF and World Bank staff have criticised these incentives and the risks posed by PPPs. According to Maximilien Queyranne,[78] from the IMF Fiscal Affairs Department, the fiscal risks of PPPs are "potentially large" because they can be used to "*move spending off budget and bypass spending controls*" and "*move debt off balance sheet and create contingent and future liabilities*". While Rui Monteiro, a World Bank specialist on PPPs, mentions that "*as projects are perceived by current public decision makers as zero-cost projects, the selection of projects loses rationality, allowing for the approval of projects presenting social benefits lower than total costs*".[79] As the recent case of Portugal shows, poor identification of direct liabilities of PPPs, hidden under the guise of "off balance sheet" accounting, exacerbated the crisis because the government had to make large payments to PPP companies.[80] This motivated the IMF to include a condition in a government loan to review its PPP contracts from a fiscal perspective because it was worried about the impact of the cost burden of PPPs on governments' ability to pay back the loan.[81]

In summary, PPPs remain attractive to decision-makers because they allow governments to circumvent legislated budgetary limits. The adoption of austerity policies means that governments are constrained from borrowing or spending more. Instead of building infrastructure with capital upfront, PPPs use annual instalments from revenue budgets or user fees to pay for infrastructure. In this way governments do not need to directly take loans, but costs will appear either in future periods (as governments assume a future debt), or be absorbed by users. Although PPPs represent a form of borrowing, the difference in the timing of the cash flows creates a strong bias in favour of using PPPs.[82] Therefore, experience shows that, from the fiscal viewpoint, it is critical to assess the implications of PPPs properly and to treat them in the same way as traditional public investment.

The efficiency gains and risks of PPPs

PPP supporters argue that most of the additional costs of private over public finance are justified in terms of efficiency gains. However, the empirical evidence of the efficiency gains of PPPs is very limited and weak. One key element to consider in the PPP equation is the notion of "risk transfer", as this has an impact on "burden sharing" among partners. Currently, there is increasing pressure to attract private sector finance, particularly to large infrastructure projects. However, the probability that PPPs may transfer significant risks to the public sector deserves special attention.

The lack of evidence of efficiency gains

In some cases the efficiency gains of PPPs come from improvements in design, in construction and in operations. There are some studies that refer to the positive impacts of private sector participation in service delivery and management, but the evidence is not conclusive.[83] Interestingly, in most cases, efficiency gains depend on the sector, the type and size of projects, the private sector increasing capital investment as contractually agreed, and the country context in terms of regulatory environment and governance. Two of the "main messages" from Estache and Philippe (2012)[84] illustrate these points. First, "*although efficiency gains from Private Participation in Infrastructure are common, they are neither systematic nor guaranteed when information gaps (asymmetries) allow operators to capture rents that should be shared with users.*" Second, "*for the most successful projects, unless regulation works, efficiency gains become rents [profits] which fuel conflicts between governments, users and operators. These can be managed ex-ante as well through the proper design of regulation and the rules of implementation of that regulation.*"

In addition, a 2009 WB report on private participation in electricity and water in developing countries in the past 25 years[85] points to an increase in efficiency gains, but at the same time it points to a lack of investment of the private sector, and a failure to lower prices for consumers. According to the report "*this lack of investment [from the private sector] raises concerns about the long-term sustainability of the operational improvements achieved*". The report attempts to explain where the efficiency gains (savings) associated with the entry of the private operator went. One plausible explanation given is that *"the private operator may reap all the gains through profits, passing on none of the cost savings to consumers. Given the young regulatory environments in developing countries, which often lack sufficient capacity for supervising public-private contracts, this possibility needs to be considered".*

Who bears the risk in PPPs?

The transfer of risk relates to a crucial point in the debate around PPPs: who is ultimately responsible for the project (and hence for the public service provision)? There is a vast amount of literature that addresses this issue and looks at how to allocate risks in an "efficient" manner. The standard prescription is that each risk "*should be allocated to the party best able to manage it".* In other words, the private provider should deal with the risks and responsibilities that they can manage. The WB PPP Reference Guide[86] argues that *"allocating some of the risk to*

> The extent to which PPPs are the right tools to enable positive environmental and social outcomes is not free of controversy.

a private party which can better manage it, can reduce the project's overall cost to government". This would mean, for instance, giving the private operator managerial freedom to implement a whole-of-life costing approach and to introduce rational decision-making throughout the project. Risk transfer, when linked to managerial freedom, allows for cost reductions. However, when PPPs are designed mainly for "enlarging the fiscal space" of the public sector, without due consideration of fair and sustainable burden sharing, the result is that the cost usually increases with the degree of the risk transferred. According to a report from the Public Services International Research Unit (PSIRU) at the University of Greenwich,[87] "*one should certainly not expect profit-maximising private sector firms to assume the risk without compensation, and indeed they do not. The more risk that is transferred, the more expensive it is likely to be.*"

In practice, many different arrangements are being developed to minimise private sector risk that have important implications for the public sector. One area of risk that is particularly contentious is demand risk. Companies are increasingly asking for public sector support in the form of subsidies, grants or guarantees to compensate for demand risk, which generates financial implications for the public sector. Important lessons can be drawn from the experience of Korea. After the 1997 Asian financial crisis, the Korean government provided an operational revenue subsidy through the minimum revenue guarantees, mainly to transport PPP projects. In practice, this was a way of protecting the private sector against inaccurate revenue forecasts, but a measure that placed an excessive fiscal burden on the government. By 2011, the total government burden for 36 PPP projects with minimum revenue guarantees was estimated at some US$ 2.6 billion. Unsurprisingly, after the minimum revenue guarantees scheme was abolished in 2009, the level of private sector participation in infrastructure development significantly declined.[88]

The private sector might also ask for measures to mitigate political and regulatory risk, through the provision of guarantees to ensure that rules will not be changed for their disadvantage or that compensation will be provided. However, such guarantees reduce the capacity of governments to respond to new information and introduce measures that can create unfair competition with other private sector companies. Environmental risks that have not been dealt with before procurement, or demand risk that the private company cannot manage, are examples of risks that all too often increase the cost of PPPs. Too often governments are forced to rescue the project (if not the private company) when the private partners fail to cope with the cost of those risks. The IMF itself warns against the cost of risk transferring: "*it is possible that the government overprices risk and overcompensates the private sector for taking it on, which would raise the cost of PPPs relative to direct public investment.*"[89] This is the case, for example, for PPP contracts transferring the risk of construction delays to the private sector, where transfers cost about 25 per cent more than conventional contracts.[90]

Given the fact that PPPs are used as a mechanism to deliver public services, the "risk sharing" is somewhat uneven. States have a duty to ensure provision of at least a basic level of these services, such as health, clean water or basic education for children, as nearly all of the world's states have signed up to the Convention on the Rights of the Child. Therefore, it is responsible for ensuring that the partnership works. This means that, if a project goes wrong, the government has to rescue the PPP project. That should imply terminating the contract which has financial implications for the government and operating the project under public management or under a new PPP contract. In this case, it is clear that the responsibility falls back into the public sector, since the disruption this can cause is unlikely to be acceptable from the perspective of delivering a human-rights based public service. This means that the public sector often gets engaged in trying to support the private company or renegotiate the deal to prevent this. If the company fails spectacularly, e.g. running up big debts, the government might end up bailing it out, which means that private debts will get transferred to the public sector and to taxpayers.[91]

Sustainable development outcomes and equity considerations in PPPs

The extent to which PPPs are the right tools to enable positive environmental and social outcomes is not free of controversy. In practice, the quest for maximising return on investments constrains the capacity of PPPs to deliver sustainable development outcomes and to reduce inequality. Detailed and transparent ex ante impact assessments – including social, environmental and gender impacts – and the stringent implementation of social and environmental safeguards are key. However, many of these aspects are usually neglected when designing PPP projects and in the performance data collected.

PPPs present many different challenges when it comes to delivering sustainable development outcomes. First, PPP projects have to be commercially viable or private companies will not sign up to them. This limits the extent to which PPPs can proceed in areas which are at first not profitable. At the same time, this has implications on public sector investment priorities: low priority projects may go ahead simply because they are commercially more attractive. As explained above, transaction costs of PPPs make them less suitable for smaller projects, thus large projects with higher risks of environmental impacts, such as dams and mega-corridors, are first on the list. At the same time, private investors are attracted to the easiest to serve communities, so investment is skewed towards more affluent areas of middle-income countries, leaving the state to deal with the hardest to serve communities.

Second, private participation in infrastructure has pros and cons that need to be spelled out. In some cases private participation results in improvements in the service delivery that benefits the final users, by streamlining production systems, introducing rational business management, increasing productivity and technological levels, and adding value to staff, through training and the introduction of innovation etc. However, private companies have a greater incentive to strip out any elements of a service that might reduce their potential profits, including jobs. According to research published by PSIRU, PPPs generally worsen the employment conditions of workers and their collective organisation in unions.[92] This makes the impacts of PPPs on jobs one of the most politically sensitive issues for a government. Most of the studies available on the issue find mixed results: a negative and significant impact of PPPs on direct and indirect short-term employment, but a positive impact in labour productivity and long-term indirect employment.

Third, in a context where there are political demands to cut public spending, the existence of PPPs creates greater threats to other spending on public services. This is

> It is crucial to identify tools to ensure populations are reached by the potential benefits of PPP projects while safeguarding against harmful practice.

because PPPs create long-term contractual rights to streams of income, in some cases contractual periods last for 25-30 years or more, so governments are legally constrained from reducing payments to PPPs. This, in turn, means that reductions in spending are concentrated on non-PPP areas. For instance, in the case of Portugal, the annual payments to just two major road PPPs cost €800 million, which is more than the entire national transport budget of €700 million.[93]

Furthermore, user affordability and equity considerations are also key components of a comprehensive assessment. Getting the price right for users, particularly for the poor, is an active policy decision. All too often PPP projects create infrastructure or services that come with user fees to generate revenue – especially in the case of 'user pays' PPPs – which naturally excludes the poorest from access.[94] However, it is common practice that indicators of success are focused on access to services, such as roads, energy, water and healthcare, without considering critical aspects such as user affordability and quality of the services. The WB's IEG report also raises a red flag on this point: "*access of services to the poor are rarely indicated as an explicit objective, which may also explain why data were not collected in this important area*".[95] In addition, an IFC literature review on the gender impact of PPPs concludes that "*despite the policy level commitment there is very little evidence of infrastructure projects taking conscious action on gender*".[96]

The evidence from academics and CSOs on the impacts of PPPs on development outcomes shows mixed results. Trebilcock and Rosenstock (2013)[97] state that "*the striking finding in terms of the impact of PPPs is the limited impact on improving access*," with varying results across sectors. For instance, the water and the energy sectors have proved to be problematic, while the telecommunications sector has shown more positive results. The health sector also shows controversial results. The use of the PPP modality for hospitals in the UK has been heavily criticised.[98] While some countries in Latin American have tried to replicate the UK model, including Chile, Colombia and Peru, Peruvian researchers cast doubts on whether PPPs are convenient for their health services.[99] Civil society organisations have demanded a regulatory framework to establish mandatory standards for the private sector companies, and to guarantee a better and affordable service for users – considering that health is a human right – and decent jobs for workers.[100]

While the evidence on determining whether PPP efficiency gains have been shared with users, particularly the poor, is far from conclusive, there are several case studies that raise critical concerns. According to Estache and Philippe (2012),[101] "*the poor have significantly suffered from the mismanagement of the tariff structures. When these are properly regulated, access improvements are equivalent to improvements in affordable access*". CSO research related to land and agribusiness projects also shows that, in some cases, the price setting process has benefited large multinationals over families and small farmers.[102]

Finally, the impacts of PPPs on the environment are even less well researched and systematically considered for institutions and project promoters. The International Institute of Sustainable Development finds[103] that "*environmental and social safeguards are yet to be built into the PPP landscape*". According to their research, "*the focus needs to move away from conducting environmental impact assessments as purely a part of the licensing and construction permit requirements, and towards integrating sustainability across the PPP life cycle*". The World Bank, strong in the field of social and environmental safeguards in its investment loans (but currently in the process of reviewing them), has adopted a different approach towards safeguards in recent years. In 2012 the Bank exempted its PPPs from safeguards, instead applying "performance standards" with weaker compliance requirements, among other things.[104] In practice, the push of many for speeding up the implementation process runs the risk of seeing social and environmental safeguards as a major obstacle. As the WB's IEG report indicates, "*adhering to environmental and social safeguards has also contributed to slow implementation, to the extent that it sometimes 'clouded' the positive perception of project benefits. But implementing these safeguards was important and delivered public benefits*". However, it is important to note that the implementation of safeguards has also been an issue on the ground. In the last decade local communities have submitted many different complaints to the institutions' redress mechanisms in relation to the impacts of PPP projects. One of the most outstanding examples is the Bujagali Hydropower Project in Uganda (a PPP project supported by the African Development Bank, the European Investment Bank and the World Bank). There were two complaints in 2001 and in 2007 that resulted in a highly critical report by the Wold Bank Inspection Panel – released in 2008 in relation to the economic, social and environmental impacts of the project and the problems of the World Bank to meet its own standards.[105]

It is crucial to identify tools to ensure populations are reached by the potential benefits of PPP projects while safeguarding against harmful practice. Detailed ex ante impact assessments – including social, environmental and gender impacts – are key. Contract specifications and enforcement are also crucial to ensure that the private sector partner delivers on expected outcomes. The public authority sets the project parameters, by identifying priorities, specifications, performance, indicators and penalties in the case of a private partner failing to comply with the contract terms. Unless environmental, social and development safeguards are built into PPP contracts, the private sector may seek to act only in its own interests, which may not necessarily be those of the government, citizens and local communities.

Democratic governance of PPPs

Governance matters and PPPs require significantly more complex due diligence than traditional public procurement projects in order to deliver services in an efficient manner. Experience in both developed and developing countries shows that the regulatory framework is key to setting clear guidelines and structures to safeguarding the interest of citizens and the public purse. Full alignment with national development strategies, to allow for democratic ownership, is an important prerequisite, and a high level of transparency and citizen engagement is needed throughout the whole process.

Institutional framework – negotiation, management and monitoring capacities

The public sector is responsible for preparation, negotiation and administration of the contracts, and for monitoring and evaluating contract performance during the construction and operation phases of the project. Most evaluations, including those from the WB and the OECD, highlight that capacity at the country level to negotiate and manage PPP contracts is one essential

Box 4: Changes and implications in the PPP regulatory framework

The case of Tanzania: The 2011 PPP Act changed the institutional setting for managing PPPs in Tanzania. Before that, PPPs were implemented using existing laws such as the Public Corporation Act of 1992 or through structural reform policies. As a result of the new act, two units were established: a PPP Coordinating Unit within the Tanzania Investment Centre to coordinate and promote PPPs, and a PPP unit in the Ministry of Finance (MoF) to assess PPP projects that involve public finance. Currently there are efforts to merge the two units into one PPP Centre and to create a PPP Facilitation Fund under the MoF to provide funding for technical assistance, capacity building and other costs necessary for the government to provide support to a PPP project.

The work of these two PPP units, however, presents some clear challenges. The mere existence of two units might imply a high risk of duplication of labour and bureaucracy. In addition, since the PPP units are within government institutions, questions could also be raised about their independence and possible conflict of interests. A report on contingent liabilities commissioned by the Ministry of Finance[107] points out many shortcomings of the PPP regulation with practical implications in managing PPPs, including that "*the Act does not specify what financing modalities will be allowed,*" and the risks are broadly defined. The report recommends that the PPP Act should:

i) clarify the institutional responsibilities and functions;

ii) specify the types of financing modalities permitted;

iii) include a description of the various risks to be shared between private and public sector;

iv) include the sustainable debt limit (i.e. gross or net debt of GDP) and clearly define whether guarantees are included in the total debt limit or not.

The PPP policy sets out the basis of the procurement process for PPPs. It refers to a competitive process, as a way to ensure "*fair, equitable, transparent, competitive and cost-effective procurement*". Publicly available information indicates that PPPs have been selected on the basis of competitive bidding or direct negotiation and other sector based criteria, for example, in the telecoms and transport sector it depended on the highest price paid to government whilst for water and sewerage sectors it depended on the lowest tariff.[108]

The case of Peru: ProInversión is the state agency mandated to promote the use of private investment in the provision of public services and infrastructure, as well as to provide technical assistance. It reports to the Ministry of Economy and Finance, but it has technical, operational, administrative, economic, and financial autonomy. ProInversión has a Directorate Council and a Committee that are in charge of approving the project. Projects are submitted to ProInversión through the relevant ministries, which act as regulatory bodies for PPP contracts. If the PPP is a co-financed project, it also needs the nod of the Ministry of Economy and Finance.

In 2008, after the global economic and financial crisis, the Framework Law on PPPs was reformed. This led to a relaxed framework aiming to facilitate concessions for projects primarily related to ports, airports, roads, highways and residual waters. This was triggered partly by the desire to implement large-scale infrastructure projects planned under the Initiative for the Integration of the Regional Infrastructure of South America (IIRSA).

Some of the main changes introduced in 2008 to the Framework Law on PPPs were:

i) changes in the cost-benefit calculation to simplify the use of the 'value for money' methodology – which, in any case, had not been fully implemented due to its complexity;[109]

ii) a risk calculation identifying the part for which the private sector operator is not accountable;

iii) the obligation of each state agency to reduce bureaucratic obstacles to getting permissions, licences and authorisations to implement projects; and

iv) delimiting the opinion of ministries to the sphere of their legal competences, thus leaving to ProInversión the possibility of unilaterally determining whether and when to ask for the regulator's opinion.[110]

The 2008 Framework Law on PPPs sets out the methodology to compare the net cost of implementing a reference project with the cost of implementing the same project through a PPP. The numeric expression of this methodology is called 'value for money'. However, its use is on standby while the Ministry of Finance evaluates its viability. Research from the Peruvian Institute of Economy[111] found that two main problems make the use of this methodology technically and economically unviable. First, the mistaken assumption that an infrastructure project implemented through public work and a PPP can deliver the same product, quality, and revenue in the same period, thus reducing everything to a cost matter. Second, that evaluation and allocation of risks throughout the lifespan of a project becomes difficult due to the lack of statistical information on implementation of similar public works.

According to an analysis from the Economist Intelligence Unit magazine on PPPs in Peru,[112] weak regulation of contracts allows frequent re-negotiations and the opportunistic behaviour of private sector companies, as well as ambiguities about the different stakeholders' responsibilities. For instance, according to official figures, the Inter-oceanic Highway (Carretera Interoceánica) had an initial investment amount of US$ 0.8 billion, which in the end reached US$ 2 billion, due to consecutive renegotiations.[113] Therefore, despite recent changes, the legal framework still needs to be consolidated and further developed to address problems in assessing costs, and in applying a useful methodology for selection and monitoring.

It is important to note that the law does not provide details or specific procedures on evaluation and monitoring of PPP projects. Ex post assessments of PPP projects are key, but still lacking. According to Germán Alarco[114] of Latindadd, there is a lack of capacity in Latin American countries to conduct ex post assessments of PPP projects. In his view, "*efforts from many countries to reach a path of economic growth could be thrown away if PPPs are not properly managed*".

success factor. However, this capacity is absent in many countries.[106]

While increased inter-ministerial coordination is widely encouraged, there is not a unique view on the best way of building capacity at the country level. As the WB's IEG recognises,[115] the issue of setting up PPP units is not one-size-fits-all: "*whether a dedicated 'PPP unit' at the country level is needed, remains to be seen (…) their existence and proactive engagement may easily imply implicit approval of PPPs as opposed to other procurement options*". Furthermore, when procedures and capacities are not in place, it takes both time and experience to establish them, which does not always allow the urgent need for particular services to be met. This can be the situation in many developing countries where the blind promotion of PPPs is perceived as problematic. Although many efforts to change the regulatory framework for PPPs have been put in place, this does not result in immediate improvements (see Box 4 highlighting the experience of Tanzania and Peru).

Also key to the fate of the project is national ownership and political will. Donor governments and financial institutions providing advice and technical support linked to the implementation of PPPs (in some cases linked to aid programmes) can constrain the democratic process at the national level, which undermines country ownership. This can be seen in the case of the Dar es Salaam Rapid Transit (DART), selected as the Bus Rapid Transit forerunner in Africa in the early 2000s, but which faces implementation delays up to the present day. According to research from the University of London,[116] the World Bank has been one of the main promoters of this project, providing funds linked to the PPP model for its implementation: *"a conditionality attached to World Bank lending is that private companies operate the buses, [while] the public sector oversees the systems and carries out quality controls on the service providers."* The conclusions of the research show that the *"slow progress of DART stems from the tepid commitment to the project by the Tanzanian government, which reflects its attempt to bring into harmony the conflicting interests of the World Bank and the demands of a number of local actors to whom it is electorally accountable."*

In addition, capacity at the national level is also needed to monitor PPP project performance. In order to determine whether PPP projects fully deliver on their expected outcomes, PPPs need to be measured systematically in a comprehensive manner. Given the complexity of PPP contracts, monitoring of performance in both the construction and the operational phases requires skill and dedication from the public sector authority. In practice, an over-dependence on self-monitoring by private sector companies undermines democratic governance arrangements and meaningful public scrutiny.

At the same time, it is also important to define clear indicators for monitoring PPPs in the long run to capture vital performance and user aspects of PPPs. The quality, affordability and equity aspects of the service delivered have to be at the heart of public concerns. However, there is still no evidence that these are more effectively delivered under the PPP option. As included in Box 2, the WB's IEG review[117] shows that development outcome ratings are currently insufficient to evaluate PPP projects properly. According to the IEG, "*there is an urgent need to introduce a more systematic way of monitoring PPPs. Such a system should not only better capture the end-user aspects of PPPs, but should also monitor PPP performance beyond the early years of operational maturity*". The current approach is highly problematic as it is actually after the contact is awarded (during the operational phase) when social and environmental impacts (either positive or negative) can be observed.

Transparency and attention to stakeholders' participation

PPP contracts are ruled by commercial and competition laws, where confidentiality clauses are more demanding than those prevailing under public administration.[118] This results in less project transparency and limited public scrutiny, which undermines democratic accountability, and presents greater opportunities for corrupt behaviour. In practice, it is difficult to identify and hold anyone to account. This also results in difficult redress and access to grievance mechanisms.

Transparency throughout the PPP cycle is a very important component of accountability. Without information the government cannot be hold accountable. As stated in Open Contracting Global Principles[119] – developed by the Open Contracting Partnership in October 2013, in consultation with government, private sector and civil society actors – the proactive disclosure of documents and information related to public contracting, including PPPs, is key to enable *"meaningful understanding, effective monitoring, efficient performance, and accountability for outcomes."* This means disclosing contracts, pre-studies, bid documents, and performance evaluations, among others. According to the World Bank,[120] *"there are reasons to believe that significant disclosure can help PPP programs achieve better value for money*," including how they can improve governance and provide users of services with an understanding of what levels of service they should be getting. Research also shows that stringent disclosure requirements are seen as a potentially powerful remedy to fight corruption.[121] It is not only necessary for the transparency of contracts to increase substantially, but is also important for the national sectoral strategies currently driving the implementation of policies in a particular area. Transparency has to enable citizens and parliament to understand who will pay what to whom, when and from which budget. The OECD[122] and the IMF[123] have also called for maximum standards of fiscal transparency, including the disclosure of costs and contingent liabilities of PPPs. In practice, there is still a shocking lack of transparency despite rhetorical recognition of its importance.

Some countries have advanced their level of proactive disclosure of information, but others still rely on transparency laws to allow for public scrutiny, which can be time consuming for both information users and information producers.[124] Several case studies on PPPs refer to serious problems of transparency, both in developed and developing countries. Research by Oxfam and LCPA on the Lesotho hospital project,[125] for instance, found that most of the detailed negotiations and calculations took place in secret and remained shrouded in commercial confidentiality (see box 3). This limits the possibilities for any substantive public scrutiny. In 2011, the UK Committee of Public Accounts, which was appointed to examine PPP projects in the UK, found that "*transparency on the full costs and benefits of projects to both the public and private sectors has been obscured by departments and investors hiding behind commercial confidentiality*".[126] In response to these findings, the Committee stressed that "*once contracts have been let, commercial confidentiality should not restrict the ability of the public, Parliament and decision makers to access information. Freedom of information should be extended to private companies providing public services*".[127]

At the same time, a key premise for the good governance of PPPs is that governments publicly consult a broad range of stakeholders in the process on an informed basis. There is a case to make for pro-actively engaging trade unions, local communities and CSOs, as they often do not have equal access to information or influence on company decisions in comparison to the main investors. Trade unions, as well as civil society groups, are relevant stakeholders that should be involved at an early stage to understand the pros and cons of PPPs and to inform governments' decisions. The OECD has also identified this need. In its principles for public governance of PPPs, it states that "*popular understanding of PPPs requires active consultation and engagement with stakeholders as well as involving end-users in defining the project and subsequently in monitoring service quality*".[128]

Nonetheless, in practice, stakeholder participation does not always happen, and in some cases PPP projects have triggered community opposition and government repression.[129] As the WB's IEG report concludes, *"advocacy and stakeholder consultation have thus far received too little attention and should therefore be emphasised"*.[130] At the same time, provisions for free prior and informed consent (FPIC) for indigenous communities are not always fully implemented and redress mechanisms for affected communities are also lacking in most cases. In Peru, for instance, there have been some experiences where agreements with indigenous communities have been reached, such as in the case of the North Amazon Corridor (Corredor Vial Amazonas Norte). However, *"there are also cases where communities have demanded, through mass demonstrations, an open and transparent process of public consultation"*. This has been addressed in a national law[131] giving indigenous peoples the right to prior consultation of legal or administrative policies that affect their collective rights, their lives, their cultural identity, their quality of life, or their development. But even after that, some indigenous peoples have complained that they have not been consulted, for example in projects involving the Amazon Waterway (Hidrovía Amazónica). In May 2015 this finally led to the implementation of the consultation plan.

While most donors and international institutions value active civil society engagement– as well as transparency – on paper, their role as advisors and financiers of private sector companies limits their good will and generates a conflict of interest. As the case of Tanzania shows, for instance, non-state stakeholders such as CSOs, academics, trade unions and communities are expected to support the implementation of PPPs through information dissemination and monitoring and evaluation. At the national level, however, the experience is mixed. In some cases CSOs and other non-state actors have been involved in the implementation, monitoring and evaluation of PPP projects, especially in the health sector. In some other projects, CSOs have not been involved or have been given short notice of opportunities to participate, making it impossible for them to effectively and meaningfully engage.

There are cases when communities have demanded, through mass demonstrations, an open and transparent process of consultation.

3 Conclusions and recommendations

Public-private partnerships (PPPs) are increasingly promoted as a way to finance development projects. Donor governments and financial institutions such as the World Bank have set up multiple donor initiatives to change regulatory frameworks, as well as providing advice and finance related to PPP projects. The current promotion of PPPs reflects a change of course, particularly in the context of the much-needed search for funds to deliver development projects.

This report shows that the last decade has seen a huge increase in the amount of money invested in PPPs in developing countries, with a focus on middle-income countries and on energy and transportation. From 2004-2012, investments in PPPs increased by a factor of six, from US$ 22.7 billion to US$ 134.2 billion. This has been driven by economic growth and thus the need for infrastructure development, but also by low interest rates in developed countries which has driven investors to 'search for yield' elsewhere.

Although investments fell in 2013 to US$ 84.4 billion, current estimates indicate that the developing world will experience a new wave of PPPs in the near future. However, it is important to note that despite the promotion of PPPs, private finance only provides about 15–20 per cent of total infrastructure investment. The lion's share is still provided by the public sector, and this situation is likely to continue. Therefore, questions remain about why so much focus is placed on the private sector rather than improving public sector delivery.

By looking at the empirical and theoretical evidence available on the nature and impact of PPPs, this report critically assess whether PPPs deliver on the promises of their proponents.

This report finds that:

- **PPPs are, in most cases, the most expensive method of financing, significantly increasing the cost to the public purse.** The costs of financing of PPP projects can be twice as expensive for the public purse than if the government had borrowed from private banks or issued bonds directly. This is also the case in most developing countries. Private sector companies are expected to make a profit on their investment, which in the case of 'government pays' PPPs has to be added to the overall cost of the investment, while in the case of 'user pays' PPPs this is going to increase the cost for the users. In the case of developing countries, the returns required by investors are higher than in developed countries, due to higher perceived risks.
- **PPPs are a very risky way of financing for public institutions.** The historical experience of several countries shows that PPPs can pose a huge financial risk to the public sector. The fiscal implications of PPPs come from non-transparent contingent liabilities (or risk of debts in the future) and the expectation of the public that the state should ensure the public provision of services. If a project fails – and this is not infrequent – the costs are shouldered by the public sector, which has to rescue the PPP project, or even sometimes rescue the company, which result in private debts being shifted to the public sector.
- **PPPs are typically very complex to negotiate and implement and all too often entail higher construction and transaction costs than public**

works. PPPs' high tender and transaction costs, along with complicated and long-term contracts, means that few companies have the capacity to apply for projects, reducing governments' choice and competition in tendering processes. PPPs are all too often renegotiated. In most cases this renegotiation process entails important costs for the public sector due to the lack of competition and transparency, and the privileged position of the private sector company. PPPs do not contribute to overcoming planning and project selection problems. All too often PPPs suffer from an 'optimism bias,' as a strategic overestimation of demand is common practice.

- **The evidence of impact of PPPs on efficiency is very limited and weak.** PPP supporters argue that most of the additional cost of private over public finance is justified because of efficiency gains. However, research indicates that, in most cases, efficiency gains depend on the sector, the type and size of projects, the private sector increasing capital investment as contractually agreed, and the country context in terms of regulatory environment and governance.
- **PPPs face important challenges when it comes to reducing poverty and inequality, while avoiding negative impacts on the environment.** The impact of PPPs on development outcomes are mixed and vary greatly across sectors. PPP projects have to be commercially viable or private companies will not sign up to them as they are looking to maximise profits. This limits the extent to which PPPs can succeed in areas which are not at first going to be profitable. While in some cases private participation results in improvements in the service delivery, private companies have a greater incentive to strip out any elements of a service that might reduce their potential profits, including jobs. In a context where there are political demands to cut public spending, the existence of PPPs creates greater threats to other spending on public services. Furthermore, the impacts of PPPs on the environment are even less systematically considered for institutions and project promoters. Social and environmental safeguards face implementation challenges that have triggered many different complaints to the financial institutions' redress mechanisms.
- **Implementing PPPs poses important capacity constraints to the public sector, particularly in developing countries**, where systems to do this well might not be in place. Although many efforts to change the regulatory framework have been put in place, this does not result in immediate improvements, as the cases of Peru and Tanzania clearly illustrate. Monitoring is also challenging. It often does not cover the lifespan of the project, and thus, does not register the impact of the project on the ground.
- **PPPs suffer from low transparency and limited public scrutiny, which undermines democratic accountability** – including proper redress of affected communities – and offers greater opportunities for corrupt behaviours. Although there is rhetorical recognition of the importance of transparency and stakeholder participation, in practice they are still missing and in some cases PPP projects have triggered community opposition and government repression.

This report shows that promoting PPPs in a non-critical way is a mistake. Governments and financial institutions should focus on developing the right tools at country level to identify whether – and under what circumstances – it is desirable to use PPPs.

Recommendations

As this report is published, the post-2015 and the financing for development agendas are being negotiated. PPPs are proposed as a key component of the financing for development agenda in response to pressing infrastructure needs. However, it is crucial to take into account what has happened so far and examine whether PPPs will help the world's poorest countries to finance the roads, schools, hospitals, energy and other infrastructure facilities they need to grow and thrive.

We recommend a set of concrete actions that can have a crucial impact in this debate.

Stop hiding the true costs of PPPs:

- As PPPs are an expensive form of debt, sensible accounting practices should be adopted, for instance:
  - Include PPPs in national accounts, i.e. they get registered as a government debt, and therefore are part of debt sustainability analysis, rather than being off balance sheet; and
  - Explicitly recognise the risk of hidden contingent liabilities should the project fail, through adequate risk assessment.
- Select the best financing mechanisms, including examining the public borrowing option, on the basis of an analysis of the true costs and benefits of PPPs over the lifetime of the project, taking into account the full fiscal implications over the long-term and the risk comparison of each option.

Be transparent and accountable:

- Governments should proactively disclose documents and information related to public contracting in a manner that enables meaningful understanding, effective monitoring, efficient performance, and accountability of outcomes. According to the Open Contracting Global Principles, this would require proactive disclosure of:
  I. Contracts, including licenses, concessions, permits, grants or any other document exchanging public goods, or resources and any amendments thereto;
  II. Related pre-studies, bid documents, performance evaluations, guarantees, and auditing reports.
  III. Information concerning contract formation, including the planning process of the procurement; the method of procurement or award and the justification thereof; the scope and specifications for each contract; the criteria for evaluation and selection; the bidders or participants in the process and any procedural exemptions for which they qualify; the results of the evaluation, and the identity of the contract recipient and any statements of beneficial ownership provided.
  IV. Information related to performance and completion of public contracts, including status of implementation against milestones; dates and amounts of stage payments made or received and the source of those payments; service delivery and pricing; arrangements for ending contracts; final settlements and responsibilities; risk assessments, including environmental and social impact assessments; provisions in place to ensure appropriate management of ongoing risks and liabilities; and appropriate financial information regarding revenues and expenditures, such as time and cost overruns, if any.
- For any major infrastructure projects, governments should allow for good and democratic governance through informed consultation and broad civil society participation and monitoring, including by local communities, trade unions and other stakeholders. Governments should also ensure the right to redress for any affected communities.

Put development outcomes at the forefront:

- Projects should be designed and selected to benefit everyone in the society through the delivery of sustainable development outcomes, in agreement with national and democratically driven development strategies. This means ensuring affordability of the services for the public sector and the users, as well as addressing equity concerns in terms of equitable access to infrastructure services, and avoiding negative impacts on the environment.
- Governments should develop clear outcome indicators and effective monitoring to measure the impacts of PPPs on the poor, from the project selection phase to the operational phase of the project.

Put developing countries in the driving seat:

- As part of the follow up after the Third Conference Financing for Development, governments should hold inclusive, open and transparent discussions, under the auspices of the United Nations, on developing a set of comprehensive and development focused-principles and criteria for the use and assessment of PPPs. Until this happens, the World Bank and others financial institutions and donor governments should stop promoting PPPs as the preferred way to invest in infrastructure.

Annex

Different country definitions of public-private partnerships

India: "An arrangement between a government or statutory entity or government owned entity on one side and a private sector entity on the other, for the provision of public assets and/or related services for public benefit, through investments being made by and/or management undertaken by the private sector entity for a specified time period, where there is a substantial risk sharing with the private sector and the private sector receives performance linked payments that conform (or are benchmarked) to specified, pre-determined and measurable performance standards."[132]

Peru: "A PPP is a modality of private investment participation that involves expertise, knowledge, equipment, technology and distribution of risks and resources, preferable private, with the purpose of creating, developing, improving, operating or maintaining public infrastructure or providing public services and/or provides services related to those required by the State, also to develop projects of applied research and/or technological innovation."[133]

South Africa: "PPP is a contract between a public sector institution/municipality and a private party, in which the private party assumes substantial financial, technical and operational risk in the design, financing, building and operation of a project."[134]

Tanzania: "PPP is an arrangement between public sector and private sector entities whereby the private entities renovate, construct, operate, maintain, and/or manage a facility in whole or in part in accordance with output specifications. The private entity assumes the associated risks for a significant period of time and in return, receives benefits/financial remunerations according to agreed terms; which can be in the form of tariffs or user charges. PPP is therefore a cooperative venture built on the expertise of each partner that best meets clearly defined public needs through the most appropriate allocation of resources, risks and rewards."[135]

European Commission (EC): "The term 'public-private partnership' is not defined at Community level." It "refers to forms of cooperation between public authorities and the world of business which aim to ensure the funding, construction, renovation, management and maintenance of an infrastructure of the provision of a service."[136]

The Netherlands: "A form of cooperation between government and business (in many cases also involving NGOs, trade unions, and/or knowledge institutions) in which they agree to work together to reach a common goal or carry out a specific task, jointly assuming the risks and responsibility and sharing their resources and competences."[137]

United Kingdom: "PPPs are arrangements typified by joint working between the public and private sectors. In their broadest sense they can cover all types of collaboration across the private-public sector interface involving collaborative working together and risk sharing to deliver policies, services and infrastructure." The most common type of PPP in the UK is the Private Finance Initiative (PFI), which is "an arrangement whereby the public sector contracts to purchase services, usually derived from an investment in assets, from the private sector on a long-term basis, often between 15 to 30 years."[138]

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