



Public-Private Partnership (PPP)

**PPP PROJECTS PREPARATION AND
IMPLEMENTATION: PRACTICAL ASPECTS**

What is PPP?

- Applicable for Emerging Market and Developing Economy (EMDE) countries.
- Many countries need to rely on private resources as a way to accelerate infrastructure development.

What is PPP?

- **PPP** – a method for procuring and delivering **public assets** and **public services**.
- **Public assets** are fixed assets, assets purchased for long-term use, public works, subject or dedicated to public use, or concomitant to the provision of a public service.
- **Public assets** are often referred to as public infrastructure.

Infrastructure

- **Infrastructure** – the basic physical and organizational structures and facilities (e.g. buildings, roads, power supplies) needed for the operation of a society or enterprise (Oxford English Dictionary).
- Infrastructure may include complete systems, but also parts of it, such as structures, plants, facilities or equipment generally necessary for the provision of a public service or subject to public use.

Infrastructure: examples

Facility buildings hosting the provision of:

- **justice,**
- **health,**
- **education,**
- **public security services, and**
- **culture** (theaters and convention centers).

Infrastructure: examples

Transport structures, facilities or systems used by the public for transportation purposes:

- structures (roads, bridges, and tunnels);
- complex facilities (airport terminals);
- systems (light rail lines or groups of lines, including the rail structures, electro-mechanical equipment, depot facilities, communication and signaling systems); and
- vehicles for public use/ transportation of passengers.

Infrastructure: examples

- Transportation structures, facilities or systems linked to a public service used by economic operators, including electricity or gas transportation, water transportation, passenger transportation (the rail track and related systems), and data transportation (in telecommunications);
- Equipment or plants treating sewage, and those generating public goods such as power, gas, and water.

Infrastructure: examples

- Buildings for social housing (those intended to be rented to low-income families);
- Housing or accommodation facilities to host public servants (for example, office accommodations); and
- Systems or equipment for testing or investigating for a public benefit, such as public security, forensic services, or defense force equipment.

What is PPP?

- PPPs are a contractual means to deliver public assets and public services.
- **Infrastructure PPPs** – contracts to develop and manage new infrastructure, contracts to undertake significant upgrades to existing infrastructure.
- **Service PPPs** – those contracts under which a private partner manages existing infrastructure or only provides or operates public services.

What is PPP? – OECD

- **PPP** – an agreement between the government and one or more private partners (operators and financiers).
- Within the agreement, the private partners deliver the service so that the service delivery objectives of the government are aligned with the profit objectives of the private partners.
- The effectiveness of the alignment depends on a sufficient transfer of risk to the private partners.

What is PPP? – IMF

- PPPs refer to arrangements in which the private sector supplies infrastructure assets and services that traditionally have been provided by the government.
- In addition to private execution and financing of public investment, PPPs have two other important characteristics: **(1) an emphasis on service provision; (2) investment by the private sector.**
- In this way, significant risk is transferred from the government to the private sector.

What is PPP? – IMF

- PPPs are involved in a wide range of social and economic infrastructure projects.
- However, they are mainly used to build and operate hospitals, schools, prisons, roads, bridges and tunnels, light rail networks, air traffic control systems, and water and sanitation plants.

What is PPP? – European Commission

- The PPP term 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 infrastructure for the provision of a service.

What is PPP? – Standard & Poor's

- PPP is any medium- to long-term relationship between the public and private sectors involving the sharing of risks and rewards of multi-sector skills, expertise and finance to deliver desired policy outcomes.

What is PPP? – European Investment Bank

- PPP is generic term for the relationships formed between the private sector and public bodies, often with the aim of introducing private sector resources and/or expertise in order to help provide and deliver public sector assets and services.
- The term PPP is thus used to describe a wide variety of working arrangements from loose, informal and strategic partnerships, to design-build-finance-and-operate (DBFO)-type service contracts and formal joint venture companies.

What is PPP? – PPP Reference Guide, Version 2.0 (World Bank 2014)

PPP is a long-term contract between a public party and a private party, for the development and/or management of a public asset or service, in which:

1. the private agent bears significant risk and management responsibility through the life of the contract, and
2. remuneration is significantly linked to performance, and/or the demand or use of the asset or service.

Private Party in PPP

- **Private party** is the term selected to refer to the private sector agent(s) or participant(s), meaning the company or companies that will act as a “private partner” in the “partnership” (that is, the PPP contract).
- This private partner is the contractual counterparty of the “public party” and will usually be a project company that may also be named as a **Special Purpose Vehicle (SPV)**, such as a company constituted specifically for the purpose of signing the contract and managing the project.

Public Party in PPP

- The **public party** concept is intended to include either governments (the respective procuring authority), agencies, companies or entities that may act in the respective contract as procuring authorities in the name of the government.

The broad definition of PPP: significant risks and responsibilities borne by the private agent

- This does not necessarily imply that the private agent will finance part or all of the works when the PPP relates to infrastructure development (**infrastructure PPPs**).
- It assumes that:
 - ✓ construction/ development and management (maintenance and operations) are bundled together;
 - ✓ there is a contract acting as the legal instrument that contains the obligations and rights of both parties.

The broad definition of PPP: significant risks and responsibilities borne by the private agent

- It is intended to cover not only the procurement of new or upgraded infrastructure, but also the procurement of infrastructure management services for assets already financed and built, and even services in the narrow sense of the word:
 - ✓ public services, such as utilities, transportation of passengers, water supply to homes, and so on, which may be called service PPPs.
 - ❑ **Capital-intensive infrastructure projects that rely on private sector finance.**

Private Finance PPP Contract

A long term contract between a public party and a private party for the development (or significant upgrade or renovation) and management of a public asset (including potentially the management of a related public service), in which:

- the private party bears significant risk and management responsibility throughout the life of the contract, provides a significant portion of the finance at its own risk, and
- remuneration is significantly linked to performance and/or the demand or use of the asset or service so as to align the interests of both parties.

Two (2) types of PPPs

- **User-pays PPPs, or “concessions”** – PPPs whose revenues are based on user payments;
- **Government-pays PPPs, or Public Finance Initiatives (PFIs)** – PPPs whose revenues are based on public or budgetary payments.

Sectors in which PPPs have been completed worldwide

- power generation and distribution,
- water and sanitation, refuse disposal,
- pipelines,
- hospitals, school buildings and teaching facilities, stadiums,
- air traffic control, prisons, railways, roads,
- billing and other information technology systems, and
- housing.

Sources of Information

- <https://ppp-certification.com/>
- <https://ppp-certification.com/ppp-certification-guide/about-ppp-guide>
- <https://www.adb.org/documents/public-private-partnership-ppp-handbook>