



# *An Introduction to Public-Private Partnerships*

*Seminar on Public-Private Partnership in Infrastructure*

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# Context: Infrastructures

- **A structuring rule in development**
- **A fundamental contribution to growth**
- **Difficulties**
  - Institutional & legal framework
  - Costs and tariffs
  - Solvency of the users
  - Risks,
  - ....

# Some definition's elements

## Public-Private Partnerships...

→ aim to bring together public authorities and private agents

→ in order to design, finance, build, manage ou maintain  
... a public interest project.

→ Applicable to wide diversity of sectors



développeur d'a



## Some definition's elements

**More precisely, public private partnership  
can be defined as**



***« A cost and risk-sharing relationship between the public and private sectors, based upon a shared aspiration to bring about a desired public policy outcome »***



# Financing Infrastructures sector



OCDE Report, 2009

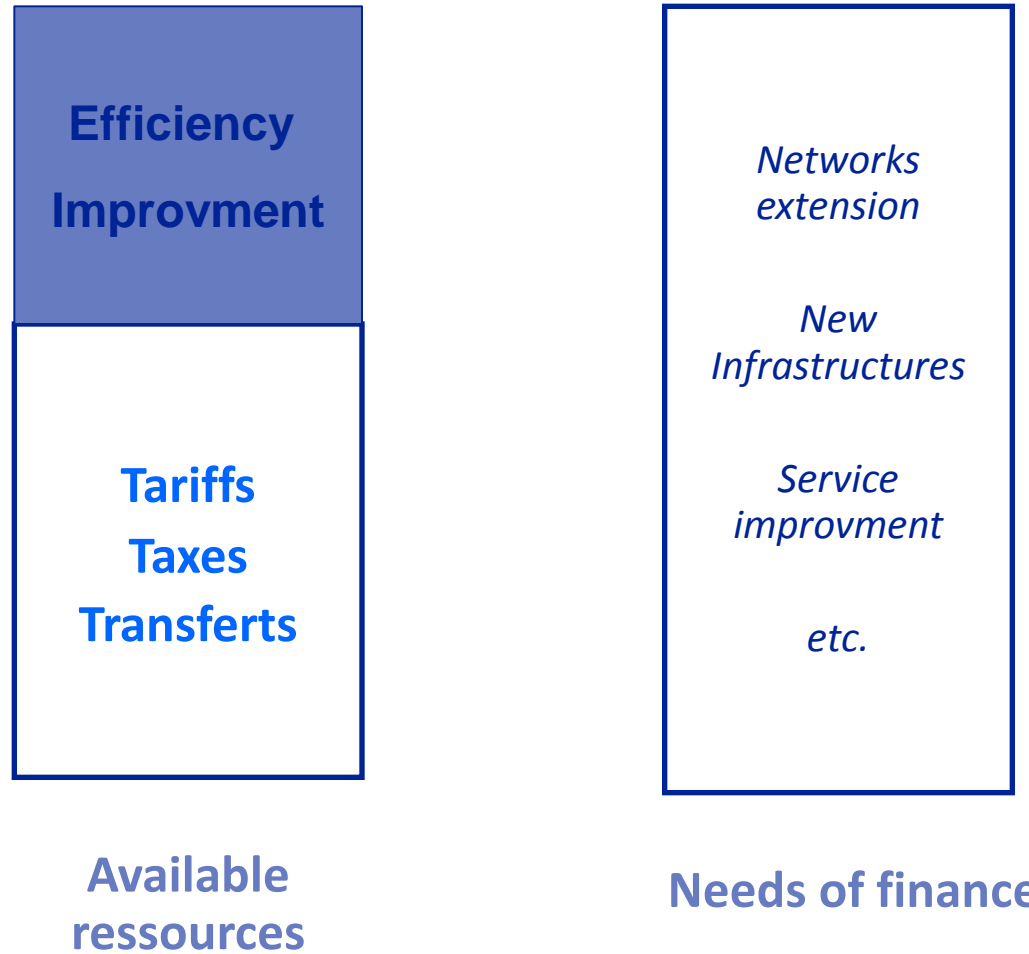
- *Managing Water for All: An OECD Perspective on Pricing and Financing*

## The « 3T »

Tariff  
Taxes  
Transferts



# Needs and resources





# Evolution of the approach

- Not a new concept, but rapid growth from 90's
- Budgetary constraint for states and local authorities
- More intensive on developing countries :
  - public finances deteriorated, public aid on constraints
  - Public services needs in rapid growth (demographic growth, urbanization, catching up)
- Public efficiency discussed : Limitation to a regulation rule and delegation of the management (efficiency, savings)





# PPP in emerging countries

- Since 90's, was considered as a major tool to reform public management
- In developing countries from late 90's, growing in Latin America (Chile, Argentina) then South East Asia
- Rapid growing of major economies (BRICS): Brazil, China, India, South Korean

# PPP in developing/emerging countries

## Investment breakdown in PPP 1984/2002

	Amount Milliards USD	Project number	Middle size Millions USD
South East Asia (1)	182	687	265
East Europe	100	589	169
Latin America	368	978	376
Middle East	24	64	312
South Asia (2)	42	195	29
Sub Saharian Africa	26	213	38
Total	741	2726	141

(1) 11 countries (Birmanie, Thaïlande, Vietnam, Laos, Cambodge, Indonésie, Timor Oriental, Philippines, Brunei, Malaisie, Singapour).

(2) India and neighbours : Pakistan, Népal, Bouthan, Bangladesh, Birmanie, Sri Lanka et Maldives

Source : *Les partenariats public-privé par Frédéric Marty, Arnaud Voisin et Sylvie Trosa, LA DECOUVERTE*

# Top 15 : A new rule for emerging countries (India, first country (US \$) in 2011)

North America  
\$47.3bn (114 deals)  
9%

Western Europe  
\$74.4bn (247 deals)  
-2%

Eastern Europe  
\$27.6bn (36 deals)  
33%

Asia (Ex India)  
\$51.7bn (110 deals)  
7%



Latin Am/Caribbean  
\$30.2bn (55 deals)  
55%

Middle East/Africa  
\$49.4bn (70 deals)  
-1%

Indian Sub-Continent  
\$88.2bn (229 deals)  
10%

Australasia  
\$36.9bn (82 deals)  
90%

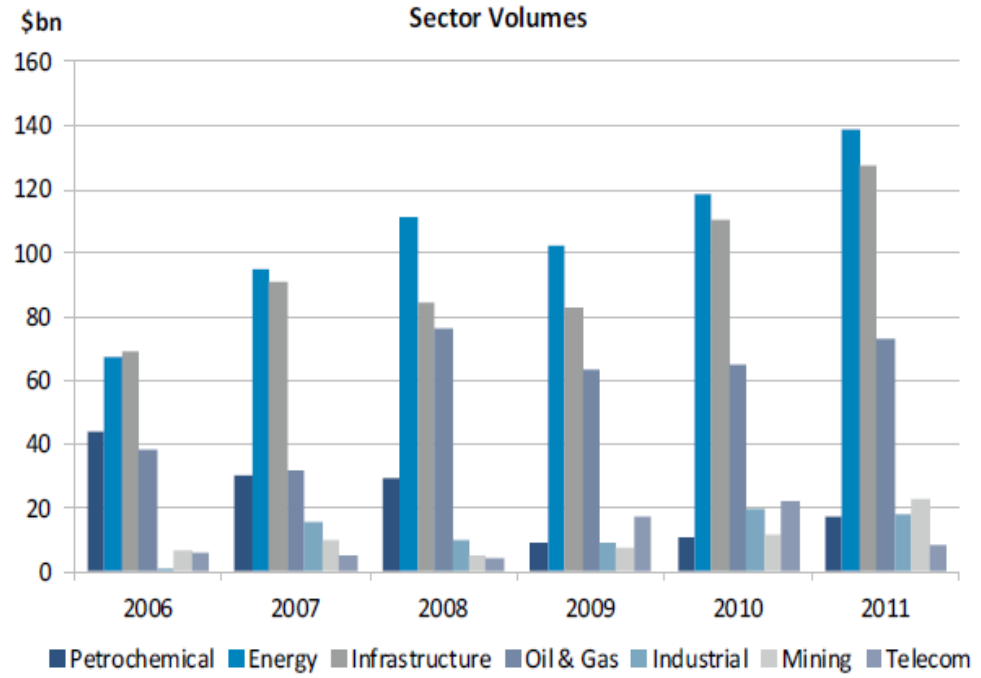
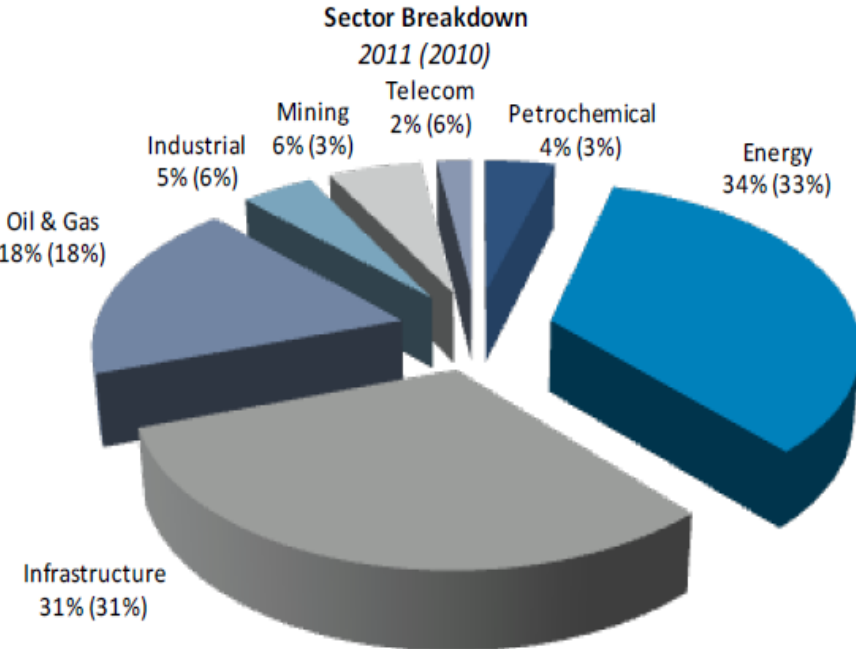
Full Year 2011 Project Finance Volume by Top 15 Nations

Rank	Nationality	Value (US \$m)	Deals	% Change (2010)
1	India	87,737	227	9%
2	Australia	36,848	81	90%
3	United States	33,525	86	-1%
4	Spain	18,387	68	-28%
5	France	18,169	31	156%
6	United Kingdom	14,870	59	10%
7	Russia	13,568	9	56%
8	Canada	13,519	26	39%
9	Saudi Arabia	13,281	10	-50%
10	Brazil	11,947	27	88%
11	China	11,776	13	13%
12	Qatar	9,842	1	-
13	Turkey	9,390	26	305%
14	Singapore	8,273	7	534%
15	Italy	8,013	42	14%
Totals		405,512	945	13%

Asia : 44% of the market, Europe – Middle East 35%, America 19%



# Energy and infrastructure sectors are leading the market



# South East Asia

Figure 1 Investment in PPI projects in East Asia and Pacific, by type of PPI, 1990–2010

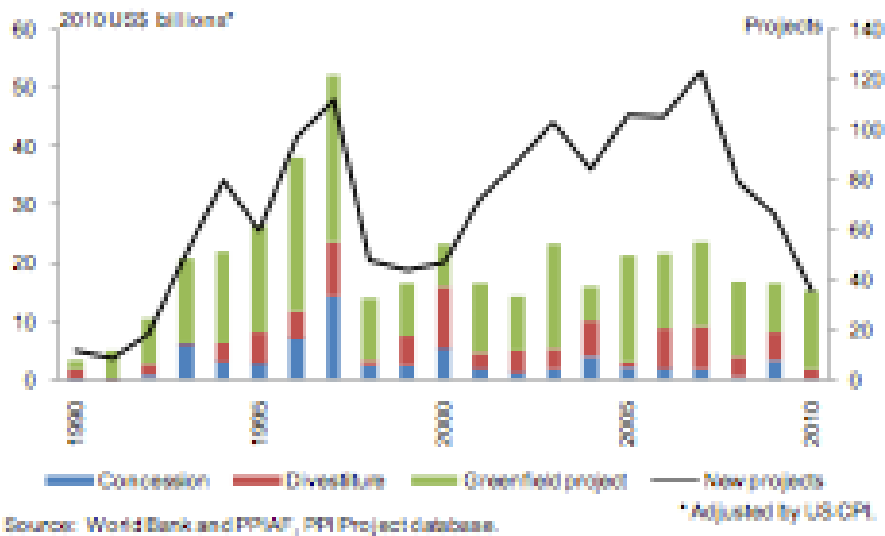
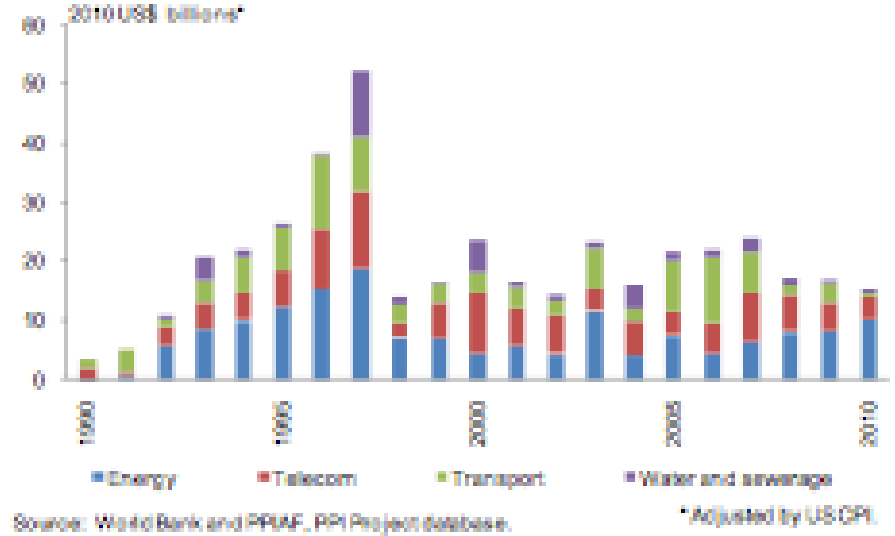


Figure 2 Investment in PPI projects in East Asia and Pacific, by sector, 1990–2010





## 2 main PPP families

- Payment by user
  - Affermage : operation, maintenance and management by private partner
  - Concession : same + responsibility for investment
- Payment by public authority
  - Design Build Finance Operate/ Build Operate Transfer/ PFI
  - Management contract : management of a service in place of public authority
- Often mixed solutions: subsidies, public co-shareholder, ....



# A wide range of contractual solutions

- **depending on :**
  - Importance of responsibilities and tasks given to private
  - Nature of the prestation
  - Who is paying for investment
  - Duration
  - Risk sharing on costs and revenues
  - Cost breakdown between user and tax payer :
    - Public payment
    - Tarif payment



## Why PPP ?

- Sollicitating user-client rather than tax-payer: equity in supporting financial cost
- Finance investments too expensive for collectivity
- Re-focus collectivity on an impulsion and control rule rather than operation and maintenance
- Mobilizing private competencies
  - Technical competencies, know how in project management
  - Finance capacity, avoid over-cost
- Efficiency improvement
  - spécialisation
  - scale economies
  - incitations





# Elaborating a PPP Project => Key points

- Evaluation of the parties interest: profitability on a long term basis and risk sharing
- Careful with the illusion of additional funds: the private sector is only able to pre-finance !
- Mainly, services can be improved by technical expertise and management expertise from private sector
- Need of confidence and dialogue between private and public
- But the process is generally long and expensive



## A seducing concept... but an elevated rate of failure

	<b>Renegotiated Concession Contracts</b>	<b>Average Time to Renegotiation</b>
<b>All Sectors</b>	<b>61%</b>	<b>1.8 years</b>
<b>Electricity</b>	<b>25 %</b>	<b>2.1 years</b>
<b>Transport</b>	<b>73%</b>	<b>2.9 years</b>
<b>Water</b>	<b>87%</b>	<b>1.3 years</b>
<b>Mega and Natural Resources Projects</b>	<b>53%</b>	<b>2.0 years</b>

Source: Marc Moseley - World Bank

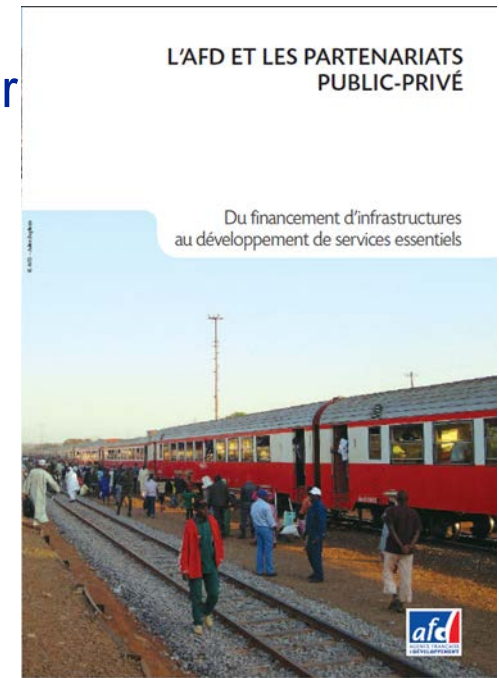


## AFD observations on PPP

- PPP can compensate for **deficiencies in utility management**
- **Not magic formula** to cope with lack of public funds
- **Political risk and small-sized** markets deter sponsors
- **Contractual models** must be adapted to local context, type of utility and intrinsic profitability
- PPP require a strong **legal framework** and good **governance** in public agencies
- Public authorities must play a key part in securing an optimal balance between **end-user protection** and **project attractiveness**

# AFD approach towards PPP

- Strengthen public sector programming and contracting capacities
- Contribute to financial autonomy of local authorities and state-owned companies
- Encourage sectorial dialogue and private sector involvement
- Can encourage regional integration
- Promote innovative partnerships





# AFD Group actions

## ■ **Technical assistance :**

- In elaborating regulatory and institutional framework for PPP
- In conducting the feasibility study of the transaction
- In programming and contracting utility services with private sector

## ■ **Financing :**

- Technical assistance and capacity building (subsidies)
- Infrastructure and services:
  - *AFD direct loans to national/local authorities and state-owned co. as PPP public contractors*
  - *AFD soft loans to private co. or NGOs for additional env. & social practices / or project components with a non incentive profitability*
  - *PROPARCO\* commercial loan and equity investment for private PPP operators*

*\*AFD subsidiary dedicated to private sector*

## ■ **Research, networking and training**

- **CEFEB** : specific PPP training for beneficiary public-servants

# AFD – Widening the range of PPP models and sectors

- **Traditional focus on classic infrastructure PPP**
  - Often financing state-owned asset-holding companies delegating operations to private sector
  - In energy production, water treatment and distribution and transportation
  
- **Increasing development of non conventional PPP**
  - In health, education, protection of the environment, agriculture
  - Promoting contract formalization between authorities and non-profit organizations/small-scale independent providers
  - Supporting governments in benefiting from the exploitation of national natural resources



Have a good work

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