

Public-Private Partnerships in Infrastructure

Global Trends and Models

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The Context for Partnerships in Infrastructure

- Many infrastructure service providers in USAID-assisted countries do not recover O&M costs. Most utilities are financially unsustainable.
- For the private sector, infrastructure is a bad investment in many countries. Since 1997, the trend is disinvestment from “risky countries.”
- “... the poor are the last to be connected.” (World Bank Water Sector Review, Sept. 1, 2003). Specific infrastructure policies make them unattractive customers!

The Context of Partnerships: The Vicious Cycle of Unsustainability

Resource

Degradation – Long-Term Challenge

- Declining service levels
- Customers won't pay

Service Providers are in perpetual operational & financial distress. Service expansion is impossible. The poor receive little service and rely on private informal markets for high cost, low quality water, power, sanitation.

The Vicious Cycle

- Deteriorating assets
- Declining productivity
- Increasing operating costs

- Declining revenues
- No access to financing
- Declining investment

The Context for Partnerships in Infrastructure

Key PPP trends:

- Many PPP projects ran into serious difficulties in the last several years. But so did public sector investment projects!
- ... yet dramatic results have been achieved with PPP. World Bank, ADB, IDB & EBRD continue strong commitment to PPP. In many cases, they won't lend unless there is a credible PPP mechanism in place.
- The private sector says:
 - Don't ask us to lose even more money ...
 - But we will operate a business if we don't have "transition risk" and if we have fair incentives
- With a few exceptions, "greenfield" projects on a BOT, BOOT basis work only in higher income areas
- ROOT, leases and management contracts are used in "transitional" or "risky" situations
- Management contracts are most common now

The Context for Partnerships in Infrastructure

The Emerging Consensus:

- The enabling environment is a prerequisite to investment
- Regulation is critical to the enabling environment
- Private sector won't take "transition risk"
- But private sector management and technology is critical for transition to sustainability and quality service!

The Context for Partnerships in Infrastructure

- US is strong in international power & telcom, but weak in water, sanitation, ports or airports.
- The Europeans – French, British, Spanish and Germans – lead in partnerships to rehabilitate and operate infrastructure.

Old Models & New Models of Infrastructure Development

Old Model

- Work with existing management to improve performance
- Invest heavily in bricks and mortar
- Transfer “silver bullet” technologies

New Model

- The key to turning around a troubled service provider: bring in competent management
- PPP partner must control the business to turn things around
- Design the PPP to support a transition plan

What is PPP?



Lessons Learned – Large Scale PPP

- Transferring a single “silver bullet” technology to a bankrupt, corrupt service provider doesn’t work
- The private sector achieves results when they control the business. (O&M is not enough!)
- Don’t support large “greenfield” projects except in special conditions. They are expensive to develop, take years, and have a low success rates

Lessons Learned – Large Scale PPP

Fit the partnership approach to the service provider:

- **Growth businesses** – those that can pay their bills & have an acceptable level of service
- **Transitional businesses** – those with a credible plan to move from unsustainable to sustainable
- **Receivership businesses** – those with a chronic record of heavy financial losses, terrible service, and corruption

Partnership activities that fit:

Growth businesses

- Technical collaboration, tech transfer, “twinning”, JVs

Transitional businesses

- Management contracts, O&M contract

Receivership businesses

- Management contracts, leases

Lessons Learned – Small Scale PPP

- The poor are good customers... if the services and incentives are right!
- Consumers don't pay until they get better service
- New business models for serving poor customers are the key to success
- USAID is a leader with new business models for the poor!

Implications for US Partnerships

- Possible “win-win” opportunity: getting US water/sanitation firms to compete for management and lease contracts
- Support technical and operational partnering for “growth” and “transition” service providers
- Help US firms compete in the current wave of PPP opportunities
- US partnerships can help “get the prices right” & build “enabling environments”

Summary

- PPP is a growth area in international infrastructure development
- Focus on O&M, leasing and investment climate
- Getting US firms involved requires:
 - Adjustment to current PPP designs
 - Let US firms know that things have changed
 - Maintain donor focus on sector reform, legal and regulatory environment