

The purpose of these *Key Sheets* is to provide decision-makers with an easy and up-to-date point of reference on issues relating to the provision of support for sustainable livelihoods.

The sheets are designed for those who are managing change and who are concerned to make well-informed implementation decisions. They aim to distil theoretical debate and field experience so that it becomes easily accessible and useful across a range of situations. Their purpose is to assist in the process of decision-making rather than to provide definitive answers.

The sheets address three broad sets of issues:

- Service Delivery
- Resource Management
- Policy Planning and Implementation

A list of contact details for organisations is provided for each sub-series.

## Overview of the debate

Over the past 5 years the debate relating to public–private partnerships (PPPs) has focused on:

- The potential contribution of various forms of PPPs to sustainable social/economic progress.
- The need to create PPP knowledge and facilities within various government organisations.
- The possibility of identifying promising PPP structures and opportunities.
- The requirements for implementing PPP structures.
- The possibility of extending PPPs to smaller, regional and poverty-focused projects.
- The management of expectations concerning PPPs.

## Key issues in decision making

PPPs refer to the collaboration between public entities and private companies to realise public projects and objectives, arranged so that tasks, responsibilities and risks are optimally allocated among the partners. Over the last 20 years, PPPs have been increasingly recognised as a viable option for realising development objectives. However, experience with PPPs is not exclusively positive.

The following range of views on PPPs are frequently expressed:

- PPPs are particularly useful for implementing large-scale projects, primarily based on contractual relations between public and private entities, mostly through design–build–finance and operate/maintain (DBFO or DBFM) type contracts.
- PPPs are an instrument for generating private-sector creativity which may contribute to the cost coverage and thus fast implementation of various socially desirable projects.
- PPPs are a structure in which public and private entities cooperate, preferably in a separate legal entity, which can be applied in various sectors of the economy.
- PPPs do not affect public responsibility. Government stays responsible. Under public responsibility, firms are invited to provide services either to government or directly to the public.

When assessing the potential contribution of PPPs to social and economic development, a strategy is needed for (at a minimum) the **policy formulation**, **project preparation** and **implementation** stages of PPP development. For each stage, initiatives should address all relevant stakeholders. These at least include: a sponsoring government entity (most likely national); local government; the local private sector; international donor and lending agencies; (inter)national commercial lenders; (inter)national project investors; the end-users of the project; and trade unions.

**Policy formulation: Setting the scene** When PPP policy is being conceived, the following must be addressed:

- Does government support PPP to enhance levels of funding or for more efficient project implementation? PPPs are often considered a ‘solution for all’, whereas the most successful projects are based on a sound balance between project finance, risk-taking and additional cost recovery. PPPs are not for free. Somebody has to pay: either government or the end-user.
- To what extent are legislation and the institutional setting supportive of PPP development? PPP implementation may require government to review legislation on taxes (value added and corporate tax), foreign investment, economic ownership and labour regulations.
- To what extent are central and local governments prepared to reduce their control over the operational stages of the project? PPP implementation requires governments to define the level of detail for project control. Also, private sector agencies need to be convinced that governments will stick to what is agreed. Ideally, if the government changes policy, then it should pay, but in reality, part of the cost often falls on the private sector.
- To what extent will governments adjust standard procurement procedures? There must be a well-defined procurement process where it is clear under what conditions the government will close a PPP deal.
- Is the local private sector buying into the concept and prepared to invest? During the PPP policy stage it may be required actively to promote awareness, understanding and skills among local entrepreneurs.
- Are international lending institutions and commercial banks involved in developing the policy concepts? Their involvement will reassure the private sector.
- Are local consumers and trade unions buying into the concept? Too often these are left out in policy formulation. This causes unnecessary concerns and obstruction as the project moves to the preparation stage. Acceptable estimates of local willingness to pay need to be made.
- Is government likely to develop a sustainable PPP process through, for example, the development of a PPP core of expertise, culture and spirit? Setting up a specific PPP taskforce may be considered, involving various ministries and possibly private entities.
- In what sectors are PPPs most likely? The emphasis is on infrastructure and primary services (motorways, ports, energy). But other services (universities, hospitals, education) might also be considered.
- Is standardisation an objective in itself? It is often argued that only when a market for PPPs is established do the real benefits emerge for governments and end-users. If so, a long(er) term view and a concerted flow of projects, investment and effort are required from all stakeholders.

## DFID experience

- Bus fleet renewal, St Petersburg, Russia
- Health services, Bangladesh
- Government policy, South Africa
- Tuberculosis control, Nepal

## DGIS experience

- Mobile telephone networks, Africa
- Bank for micro-financing, Mozambique
- Ecologically responsible chemicals factory, Brazil

## Expertise and websites

- Business Partners for Development, [www.bpdweb.org](http://www.bpdweb.org)
- European Bank for Reconstruction and Development
- European Investment Bank
- Flemish Kenniscentrum PPP
- Partnerships UK
- PPP Knowledge Centre, Netherlands
- World Bank

## Public-Private Partnerships *continued*

**Project preparation: Turning abstract ideas into projects** Relevant issues may include:

- Will the building of a portfolio of projects in each sector increase market interest, strengthen the learning process and stimulate standardisation?
- How are projects prioritised? Does the government take the initiative, or is the private sector invited to do so? Experience in developing countries shows that projects with significant end-user contributions are the most likely to succeed.
- How, and how far, do political perspectives influence the prioritisation of projects? Does this result in the selection of overambitious but underfunded projects?
- How adequately are outputs specified? What can be done to improve their specification?
- What are the options for ring-fencing a project? Although the scope of the project is at the core of the government's competence, a more open interaction with international lending institutions and the local private sector will probably add to the project's viability.
- Are the public stakeholders competing or cooperating? All too often, it is the lack of agreement between the various levels of government that delays or obstructs a project, rather than the interaction between public and private sectors.
- To what extent do PPPs require additional measures on cost recovery? PPPs are often considered a cheap source of money for realising projects. The necessary public budgetary resources, including financial compensation for the risks transferred to the private sector, are often underestimated. What will be the role of user-payments?
- Are the end-users involved in project preparation? As PPPs often lead to contractual arrangements between a government and other (often large) institutions, project preparation too often centres on the needs and wishes of a sponsoring government, rather than those of the end-users.

**Project implementation: Getting it done** The following should be considered at this stage:

- A PPP deal often aims at a long-term commitment between sponsors and the winning consortium. To facilitate contracts as fully as possible, the most important stakeholders should be equipped with the requisite skills. This is often neglected. If stakeholders are in it for the duration, they benefit from each other's professionalism.
- Should the government aim for private participation as soon as possible in the project preparation stage or, to keep things moving quickly, should government invite private participation only when the broad project outline has been defined?
- Should the government rely on the procurement process, or should it focus on applying such instruments as the Public Sector Comparator? Where there is enough competition, it is important to use standard procurement processes, but the quality of consortia needs to be assessed during pre-qualification to make sure that they are likely to be reliable partners.
- Should government aim for a complete risk transfer or retain key risk categories? For example, it is frequently argued that traffic risk for toll roads should be transferred to private partners. Equally, this risk transfer has recently led to various bankruptcies and project rescheduling. If government goes this route, will it still have to give certain financial guarantees?
- Should the government participate in a project implementation entity? In other words, should the government aim for typical joint ventures, or do contractual arrangements suffice? It is often argued that a true partnership requires the government to participate. On the other hand, government participation may increase risks for both private and public partners.

The continuous growth of PPPs in developed and developing countries means that PPPs are here to stay. However, experience shows the importance of well-balanced implementation. Donor agencies can make a difference in ensuring successful PPP policy making, project preparation and implementation.

## Key literature

- Arthur Andersen and Enterprise LSE (2000) 'Value for money drivers in the Private Finance Initiative'. Office of Government Commerce. [www.ogc.gov.uk/sdtookit/reference/ogc\\_library/PFI/studies/main2.htm](http://www.ogc.gov.uk/sdtookit/reference/ogc_library/PFI/studies/main2.htm)
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Key Sheets are available on the Internet at [www.keysheets.org](http://www.keysheets.org)

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