



Public-Private Partnerships at the subnational level

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Introduction

- Increasing decentralization brings new responsibilities to subnational governments
 - Investment in local infrastructure
 - Social services
 - Capacity constraints; borrowing/expenditure limits



Introduction

Can the private sector be more involved?

- Privatization could be a solution, but not always
 - Externalities, monopolies, politically unviable
- What about Public-Private Partnerships?
 - Many industrialized countries have PPPs, but tend to be a limited share of *public* projects
 - Latin America is the largest user of PPPs among developing countries
 - Growing interest and initiatives around the world, including subnational governments



PPPs: why are they useful?

- Private sector can be more efficient
 - Management and innovation; competition
- Private financing
 - Subnational governments tend to have (legal, market access) stricter limits on how much to borrow
- Increased decentralization puts greater pressure on local governments capacity
 - PPPs are alternative to full privatization; public sector has a say on quality of service



PPPs: why are they useful?

- Many types of PPPs
 - Design-build-finance-operate (DBFO)
 - Operating leases and concessions
- Private Sector
 - usually owns the PPP asset for period of operation
 - shares part of the risks (construction, demand, availability)
- Who pays?
 - Final user; government



PPPs: but there are challenges

- Need to design appropriately
 - Sharing of risks
 - Appropriate incentives
 - Value-for-money
- Regulatory framework
- Demand on governments
 - not the usual procurement concerns



PPPs: challenges to local governments (LG)

- PPPs tend to be better suited for economic viable projects
- LGs tend to focus more on projects with *social* component and essential public services
 - May generate economic losses but have social benefits
 - May require some level of subsidies: incentives problem; need for long-term commitment by governments
 - How to define price/tariff (monopoly; social benefit)
 - Size
- Capacity constraints
 - Governance issues



PPPs: what has been the experience

- Most projects are on transportation and energy
 - Easier to set prices that allow reasonable returns; competition between private providers; still institutional capacity and regulatory framework key for success (Chile, South Africa)
- Learning-by-doing:
 - Costly, time consuming processes
 - First PPPs involve greater risks and capacity building (UK, Australia)
- Frequent renegotiations of contracts
 - about half of all PPPs get renegotiated in Latin America
 - can reflect unexpected events, but also design problems (contracts), weak legal and regulatory framework



PPPs: what has been the experience

- In some cases delays, collapse of PPPs, and large costs to the government
 - Ambitious projections – high costs, delays, minimum income guarantees, penalties (Portugal, Colombia)
 - Costly bail-outs (Mexico in the 1990s)
 - Limited capacity of private partners (UK, Colombia)
 - Ill designed contracts
 - Subsidies
 - Macroeconomic policy (Argentina; Philippines)



PPPs: what has been the experience

- Local level PPPs limited
 - Expanding in Europe, Australia, and US
 - Mixed evidence on the performance of PPPs
 - In developing countries it is still a small share of local investment
 - Tariffs; complexity of contracts; corruption
 - In Brazil, only about 1% of cities have private participation in water/sanitation



PPPs: what has been the experience

- Very large number of renegotiations of projects
 - Difficult in agreeing on tariffs and/or level of investment
 - Poor regulatory supervision; lack clarity of rules/contracts
 - Perception that users do not benefit from private management (in some cases PPPs come as response to “crisis”; legacy costs)
 - Collapse of concessions (Bolivia: Cochabamba and La Paz; Argentina: Buenos Aires; Philippines: Manila)
- Some countries have engaged in efforts to share information and support subnational governments
 - Central agencies (UK, South Africa); regional efforts (states in Australia)
 - Issue guidelines on best practices



PPPs: key considerations

- PPPs should be considered if represent a superior alternative to traditional public investment
 - Define realistic goals, assumptions, and terms
 - Public Sector Comparator
 - Risk sharing: comprehensive and clear definitions ex-ante
- Develop legal framework and institutional capacity to manage contracts and fiscal risks
 - Define legal framework before implementing PPPs
 - Critical to assess contingency liabilities and future costs
 - Capacity to design complex contracts with appropriate incentives



PPPs: key considerations

- Governance and Transparency
 - Clear responsibilities, oversight
 - Open, competitive bidding process
 - Strengthen regulatory framework
- Define clear accounting rules
 - If public sector has a significant share of risk, potential liabilities should be included in debt
 - Fiscal accounts/budget documents should provide medium-to long-term implications of PPPs (including explicit and implicit guarantees)



PPPs: key considerations

- Coordination and sharing of information among public agencies and levels of government
 - National/regional agency that collects information and supports all levels of government
 - There may be a need for limits on potential liabilities (Brazil)
 - Could consider a role for Ministry of Finance, particularly if central government involved (guarantees) or risks are large
 - National guidelines?