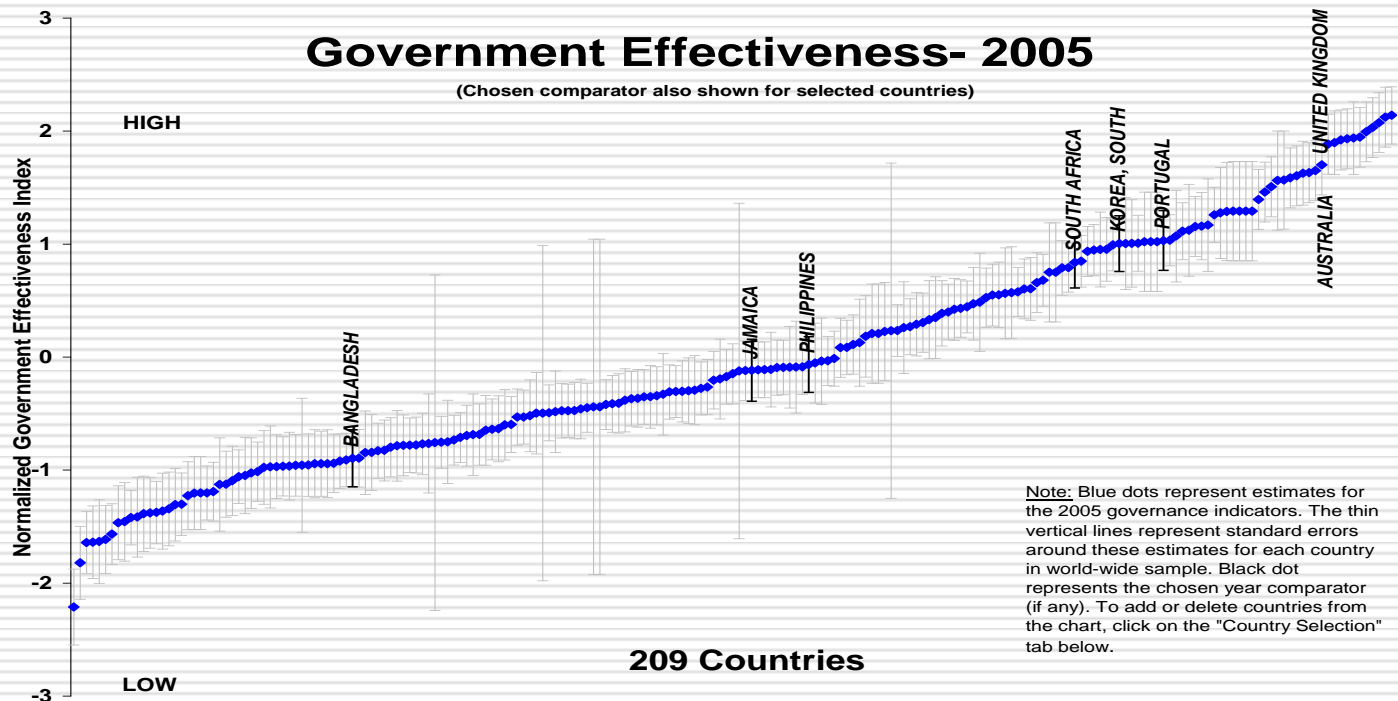


World Bank Experience in structuring successful PPPs

John Speakman

September 6, 2007

PPP success is closely linked to Government effectiveness



Source: "Governance Matters V: Governance Indicators for 1996-2005" by Daniel Kaufmann, Aart Kraay and Massimo Mastruzzi.

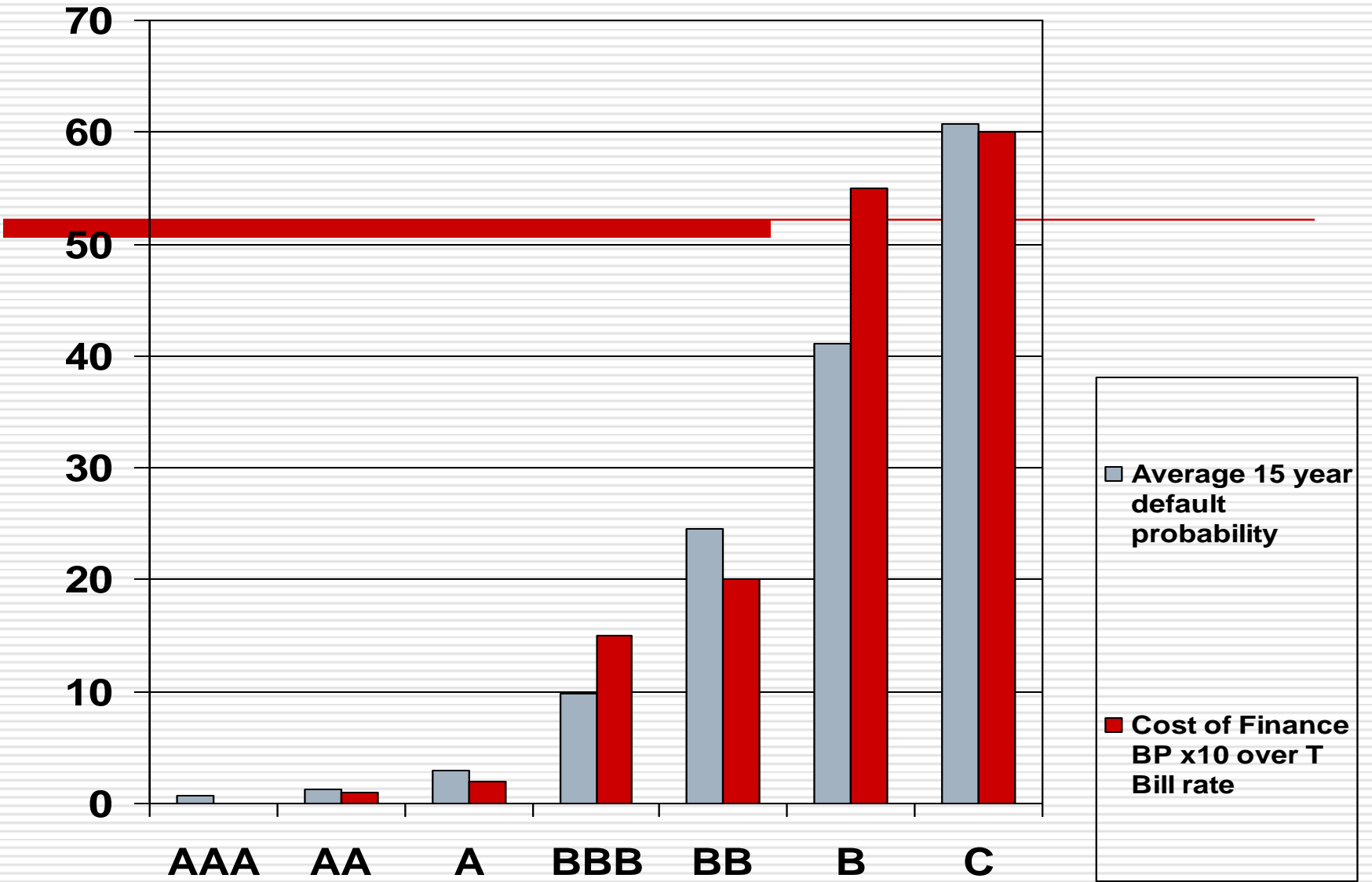
Disclaimer: The governance indicators presented here reflect the statistical compilation of responses on the quality of governance given by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries, as reported by a number of survey institutes, think tanks, non-governmental organizations, and international organizations. The aggregate indicators in no way reflect the official position of the World Bank, its Executive Directors, or the countries they represent. As discussed in detail in the accompanying papers, countries' relative positions on these indicators are subject to margins of error that are clearly indicated. Consequently, precise country rankings should not be inferred from this data.

Some reasons for PPP failures

- ❑ Poor process
- ❑ Regulatory systems (particularly price cap systems)
- ❑ Poor concession design (length of concessions)

Profitability		
	IRR	ICE
Telecom	21%	14%
Water and Sanitation	11%	15.5%
Energy	14.5%	14%
Transport	11.5%	13.5%

ICE = Initial Cost of Equity



Source: Standard and Poors

Key Lessons

- ❑ Pipeline, Pipeline, Pipeline
 - ❑ Integration with Fiscal Management
 - ❑ A strong PPP institutional framework
 - ❑ Market failures are addressed
-

The financing challenge

- 1% of GDP growth translates to 1% of GDP in infrastructure investment needs
- Typically this creates a fiscal challenge e.g. Egypt

Years	2006/07	2007/08 (Forecast)		
		GDP growth Rate		
		4%	6%	8%
GDP (in millions Egyptian pounds)	665000	931000	1064000	1197000
Needed Infrastructure Spending (5.5% GDP)	36575	51205	58520	65835
Current Infrastructure Spending (3.7% GDP)	24605	34447	39368	44289
GAP	-11970	-16758	-19152	-21546

Fiscal integration of PPP

- PPP is most effective when implementation is closely coordinated with the Ministry of Finance
 - Why is this?
 - Line ministries are very comfortable with traditional public procurement
 - The ministry of finance has the incentive: transparent procurement focused on outputs and efficiency
-

Location of PPP units is important



What does this mean?

- ❑ Evaluation/ Value for money Criteria
 - ❑ Macro framework/budgeting that accounts for contingencies and operational commitments
-

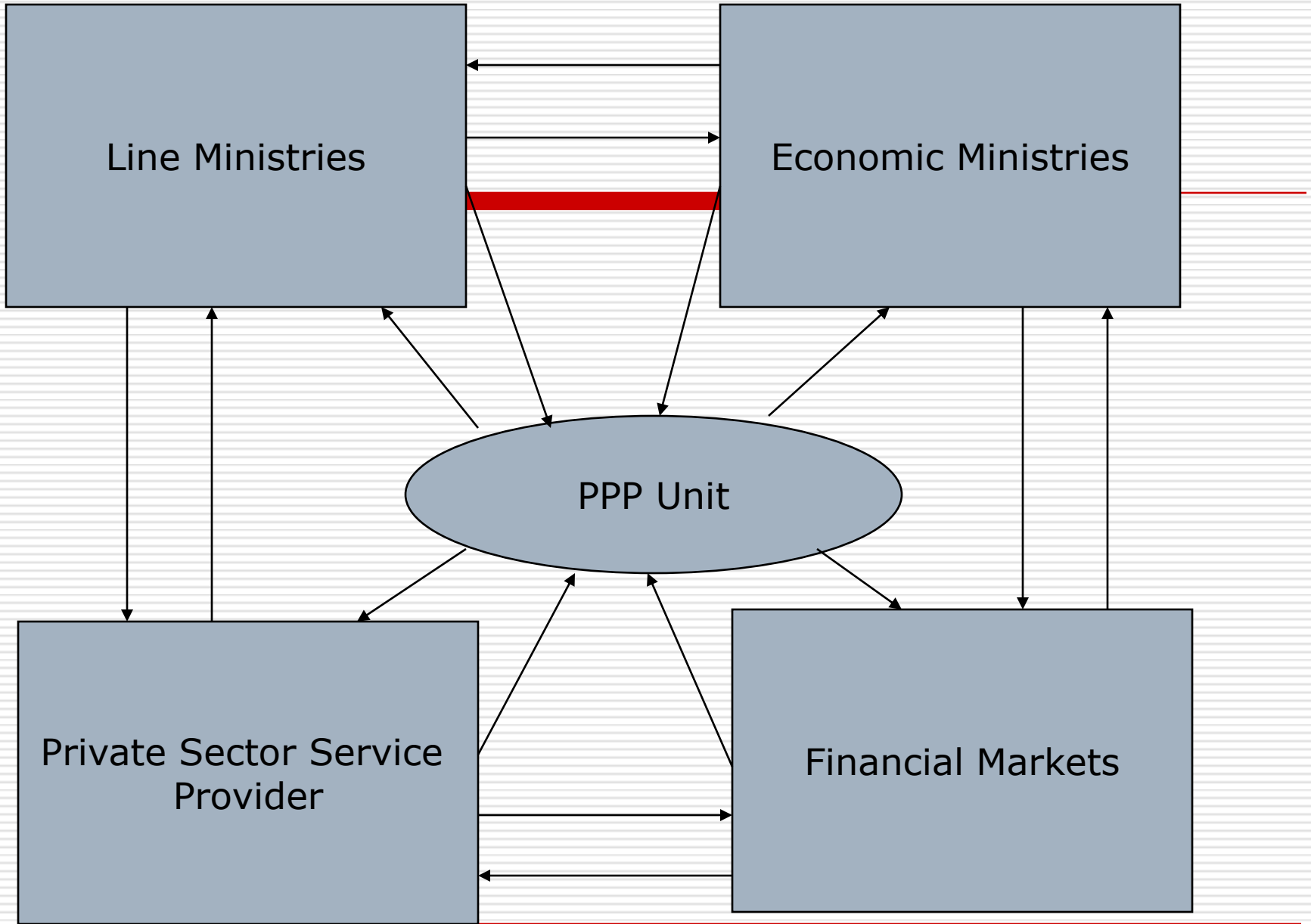
Making the Decision

- When is PPP model beneficial?
 - Opportunities for innovation
 - Clearly definable output specifications
 - NPV savings
 - Adequate bidders
 - Potential for risk transfer at reasonable cost
 - Pay-for-performance
 - Potential for non-government streams of revenue
 - Regulatory, political, institutional, operational fit



Strong PPP Unit

- ❑ Sets policy and strategy
 - ❑ Project management – initiation to closing
 - ❑ Project analysis
-



The key market failures

- ❑ Subsidies
 - ❑ Capital Markets
 - ❑ Regulation
 - ❑ Service providers
-

