Evaluation and Public Private Partnerships: Posing the Questions

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1. Introduction

PPP is a concept that involves the public and private sectors working in cooperation and partnership to provide infrastructure and services. One of the most commonly used forms of PPP involves an arrangement between public and private sector entities for delivering a service, traditionally provided by the public sector, on a long term basis usually involving major capital investment. The purpose of this arrangement is to encourage the private sector partner to take a whole life cost view of the delivery of the service, incentivized by having private finance at risk to the delivery. Such an arrangement usually involves a concession where a private sector partner takes on the responsibility for providing a public service, including construction, maintenance and sometimes operation of the necessary infrastructure.

The private sector partner will usually comprise a consortium in the form of a special purpose vehicle (SPV) that brings together the specialist skills and capacity including a contractor, an operator, or maintenance provider and the various sources of long-term equity and debt funding. PPPs are fundamentally about bringing together the expertise of the private and public sectors and allowing each sector to do what it does best in order to deliver projects and services in the most economically efficient manner.

The change from employing the standard model of an input based public procurement of the underlying infrastructure asset and a number of factors has driven its subsequent operation to an output based service delivery approach using PPPs. These include the need for improved value for money in the procurement of public services and as a counter to the short-termism of the public and private sectors often found in traditional approaches. Additional benefits may include reform or modernization in public service delivery, improved cost transparency, and contestability of service delivery. The use of PPPs around the world has lent itself to almost all areas of public and social infrastructure, such as transport, water, health, and education. Another factor has been the gap between the need to maintain, upgrade and invest in new or improved infrastructure and the limited availability of public funds available to meet the up front investment required, although it is arguable whether this of itself should be a driver for PPPs. What is clear is that Governments nowadays are increasingly turning to the private sector for financing, design, construction and operation of various types of social infrastructure projects as they see PPPs delivering public infrastructure faster than might otherwise be the case.

PPPs are increasingly playing a role within the developing world. Provision of infrastructure now tops the agenda of most, if not all Donors and Multilateral Development Banks (MDBs) which have realized the importance of employing PPPs to meet future needs of infrastructure in various countries. PPPs are being employed in a range infrastructure projects financed by MDBs because of the benefits of bringing in the resources and expertise of the private sector and the associated potential benefits from increases in efficiency, accountability and value-for-money as well as linking payment streams to the private sector contractors to the ongoing delivery of services.
2. **Objective of this paper**

Special attention has been given lately to the area of infrastructure and its effect on developing countries’ ability to achieve a sustainable rate of economic growth. MDBs have recently been diverting more resources to infrastructure in order to overcome the bottlenecks that have hampered developing countries’ ability to attract foreign direct investment and thus follow a virtuous pattern of job creation, technology transfer, and economic growth. Along this path, MDBs have been also eager to get involved in PPP operations, by acting as lenders to the private sector provider (the private sector entity responsible for building and maintaining/operating the asset) in the PPP arrangement. Such arrangements naturally differ from direct public procurement operations that are handled by the Government and which usually involve lending to the Government or public sector agency. Lending to the private sector provider, usually on a limited recourse basis, involves some fundamental differences in terms of risk and therefore calls for careful project examination and evaluation. This paper briefly elaborates two types of issue: issues affecting the performance and/or outcome of PPP projects in developing countries and issues to do with the evaluation of PPP operations.

3. **Issues affecting PPP Programs/Projects in developing countries**

There are many issues affecting the design, implementation, and outcome of PPPs. In summary, those that are of particular relevance for developing countries are as follows:

- **Market access and competition**
  One of the key benefits of a PPP arrangement is that it should yield improved Value for Money (VfM), defined as the optimum combination of whole-of-life costs and quality of the good or service to meet the user’s requirements. A major driver to VfM is competition, and this benefit can only be realized if the selection of the private sector partner has been conducted through an effective competitive process. Competition and procurement legislation, as well as access to markets to provide the depth of competitive tension required, is often not well developed. Furthermore, competition regulators often lack the necessary capacity. This area needs to be addressed if PPPs are to yield their desired VfM benefits.

- **Legislative and regulatory and Issues**
  A particular legal framework is often required to cover the statutes, acts, rules, regulations, administrative mechanisms, and contractual arrangements needed. PPPs are very reliant on effective and enforceable contractual arrangements which define the rights and obligations of the various parties in the PPP arrangement and hence the allocation or sharing of risk among those involved. Many developing countries do not have a sufficiently well developed and functioning legal infrastructure in place, which is imperative to the long-term success of any PPP project.
Public sector capacity issues
PPP procurement is usually more complex than traditional public procurement because of the number of parties involved and the need properly to prepare projects for market, manage the bidding phase, negotiate the contractual arrangements, and monitor the subsequent contract to the benefit of the public interest. (Incidentally, many of the issues apply equally to traditional procurement, it is just that PPP disciplines require many of them to be surfaced and dealt with up front). In both developed and developing countries, government capacity is one of the main challenges for effective implementation of a PPP programme. In developing countries, where public sector resources are likely to be even scarcer, the problem may be particularly acute.

Private sector capacity issues
The availability of bankable contractors and long-term service providers, of long-term equity and debt finance together with the skills and experience in the private sector to bring this all together into the required contracting group is often a major capacity constraint. This requires action by both the public and private sectors to ensure that projects are delivered to the market with the scope, volume, and quality capable of attracting credible domestic and international private sector partners.

4. Evaluating PPPs: Some relevant issues

Developing and implementing ex-ante evaluation tools
A rational approach is required to determine if, at the early stages, the PPP approach is considered the optimum procurement route prior to the commencement of the procurement process. Tools need to be developed and implemented to ensure that a credible and workable evaluation process exists to evaluate if public policy objectives are likely to be met. PPP projects are still new in many countries so the effectiveness of such tools and availability of data and lessons learned is an on-going process, which also calls for assessment after the procurement, is complete. The evaluation process is compounded by the multiplicity of factors that will influence the outcome achieved such as the scope and complexity of the project, competitiveness of the market, the management of the bidding process itself and supervision of the subsequent contract.

Value for Money
PPPs may involve higher explicit costs in some of the underlying components such as the relative cost of finance, transaction costs, and the costs of monitoring and supervision. At the same time, the private sector will bring risk management benefits and efficiencies. One of the challenges in evaluating PPPs is to determine the Value for Money proposition taking into account the relevant factors, which will include the quality of the service provision as well as the overall costs and associated risks (which may not always be explicit in traditional forms of procurement). The quality of service provision could also be extended to include issues related to the pricing regime and tariff setting. These should not be prohibitive, governments represent the public and should safeguarded public interest and ensure a suitable, yet competitive pricing that is in line with the government’s social and economic development agenda.
PPP additionality
They potential benefits expected of PPPs need to be well understood as the basis for evaluation. These include but are not limited to; (a) more efficient procurement of public services, (b) long-term transparency and certainty of costs, (c) single point responsibility for service delivery, (d) innovation and management know how, (e) transparency and better governance, (d) market development, and (f) environmental, social, health and safety best practice.

Long-term Monitoring and Evaluation
Infrastructure PPP projects are typically long-term (perhaps 20-30 years). This would in turn require systematic long-term monitoring and evaluation in order to ascertain to the value of the asset under management, particularly if the PPP arrangement involves a final transfer of ownership to the government. This raises a wide range of issues starting from the confidentiality of information to which the government should have access regarding the condition of the asset, to the government capacity to undertake the monitoring and evaluation efforts needed.

Definition of roles in PPP laws, regulations, and/or contracts
In PPP arrangements, the responsibility for managing the day-to-day construction, delivery, and maintenance of public services is transferred to the private sector. Government entities will have to limit their role to acting as regulators and commissioners of services. This often implies some significant and unfamiliar changes in the way the public sector must act. The role of public sector entities in PPP arrangement would change from the service provider to the planner and/or regulator of the service. This requires the contractual obligations to provide for the public sector entity the ability to access information related to the commercial activities of the service provided or the asset managed in order to be able to evaluate the quality of service delivery and its development impact. Clear analysis and evaluation of the changes mentioned previously is important from the start, otherwise many of the benefits envisaged from transferring the day-to-day operations of the infrastructure assets to the private sector might not be realized.

5. Posing the questions

PPPs are a promising area in infrastructure development and procurement of public services in developed and developing countries alike. However, PPPs need to be undertaken for the right reason and the lack of experience and capacity issues for the public and private sectors in many developing countries call attention to the need for careful evaluation. Among others, the following issues need to be taken into consideration:

- What are the applicable evaluation criteria?
- What are the specific features of PPPs and how and at what point should these be evaluated?
- How can the enabling environment for successful PPPs be assessed?
- How will the evaluation of individual projects take place (i.e. is the public sector body adequately resourced)?
- What are the roles required of various stakeholders?
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- How can evaluation best be built into the PPP framework?
- Can existing evaluation tools and methods be successfully adapted to address PPPs?
- Are evaluation findings and lessons learned from other regions regarding PPPs applicable in Africa?
- What are the priorities for future evaluation work? E.g.:
  - Development of good practice standards?
  - Undertaking impact evaluations?
  - Development of technical and evaluation capacity to address the PPP challenge?