Objectives of a Public-Private Partnership Program

This note is the second in a series of notes on developing a comprehensive policy, legal, and institution framework for public-private partnership (PPP) programs. This series is extracted from a PPIAF-funded analysis of Uganda's enabling environment for PPPs, which was prepared by Castalia Limited in December 2008.

The PPP framework must be designed to best achieve the government's objectives in pursuing PPPs. One objective may be to establish the use of PPPs as a mechanism for procuring and financing infrastructure projects and infrastructure services in the public sector. However, in many cases the governments do not have clear policies or statements of their reasons for doing so. Establishing clear and reasonable objectives for a government's PPP program is crucial to:

- Help relevant staff within government better understand why and when to use PPPs to provide infrastructure assets and services
- Communicate the value of the PPP program to the public
- Enable the government to evaluate the overall net benefit of the PPP program, given the considerable time and expertise required to develop and maintain a PPP framework capable of implementing good-quality PPP projects

Table 2.1 assesses the extent to which using PPPs to provide infrastructure could help governments achieve each suggested objective.

Table 2.1: Assessing Stakeholders' Perceived PPP Program Objectives

Proposed Objective	Can PPPs Help?
Reduce the cost of providing infrastructure	**Yes.** There are several ways in which PPPs, when well-designed and implemented, may reduce the cost of providing infrastructure.
Faster and better completion of projects	**Yes.** PPPs typically transfer the risks associated with design and construction to the sponsor, who will in turn ensure their sub-contractors bear the cost of any delays. This means the contractors face strong incentives to complete construction in time and on budget than under traditional public procurement. This can also be achieved through a shorter-term, "turn-key" contract. The added advantage of a PPP is that the sponsor also uses the asset and bears the cost of maintenance over time, so has an additional incentive to ensure design and construction is of good, lasting quality.
Increasing the money (sources of finance or funds) available for providing infrastructure	**Sometimes**. When PPPs are paid for wholly or partly through **user charges**, the total funds available for providing infrastructure increase. The government could achieve the same result by charging users for projects implemented through traditional procurement. However, user charging is likely to be politically and practically easier to implement through a PPP, when customers can hold a private company accountable for the quality of service provision. When a PPP is paid for by future government **budget allocations**, it does not increase available funds for infrastructure investment. In this case, the PPP creates a long-term obligation on the government, as much as a loan to finance infrastructure procured through traditional methods. PPPs do offer an alternative source of **finance**, which may help increase the government's infrastructure investment if this is genuinely constrained by the availability of finance from other sources. However, the government's borrowing and spending on infrastructure is also constrained by targets for debt sustainability and the fiscal

Proposed Objective	Can PPPs Help?
	deficit. These targets are in place for a good reason—to support fiscal and macroeconomic stability—and should apply equally to PPPs as to other forms of government investment. The government must be careful that promoting PPPs does not create a false perception of increased financial resources by creating a "route around" the budget process and these macroeconomic safeguards.
Ensuring investment in infrastructure is sustainable	**Sometimes.** PPPs can improve sustainability of investment in infrastructure by reducing project risk, and in particular the government's uncertainty of the cost of providing an infrastructure service over time. However, as much as the government must ensure the sustainability of its debt burden, the government must also take care to ensure the sustainability of its commitments under PPP contracts. Again, PPP contracts must be subject to the same budget process and macroeconomic safeguards as other forms of government expenditure.
Promoting development of the private sector in a country	**Sometimes, but may be at an additional cost.** The aim of PPPs is to provide, or contribute to providing, a public service. PPPs also potentially provide opportunities for the private sector in a country where companies can compete for and win PPP contracts. In this way, PPPs also contribute to promoting private sector development, an otherwise distinct policy goal. The government could choose to adapt PPP contracts to actively create business opportunities for the national private sector—for example, bidders or contractors could be required to be partly nationally-owned. This may ensure PPPs also promote private sector development in a country, but at a cost. If national companies can complete the project at good quality and at lowest cost, they will win the contract anyway without this restriction on competition. If not, then such a restriction increases the resultant cost of the contract, so increases the cost of providing the infrastructure service.

The following are **suggested objectives for a country's PPP program**. These objectives for a PPP program should be incorporated into draft PPP policies.

- To increase the financing available for infrastructure by making use of private sector investment resources
- To improve value for money in infrastructure projects by creating incentives for best-practice design, timely completion, and efficient operation by sharing project risk with the private sector
- To encourage innovation in the provision of infrastructure
- To improve the sustainability of infrastructure and infrastructure service
- To improve accountability in public expenditure

If a government intends to increase the use of PPPs to provide infrastructure, then the main aim of developing the PPP framework is to make this happen. The PPP framework should ensure these projects are of good quality, sustainable, well-structured, and able to attract private sector interest. These are among the "typical" principles of a PPP framework outlined in note one.

Governments should develop a pipeline of potential PPP projects. Successfully developing and implementing this pipeline, where appropriate, is a specific aim of the PPP framework. It is important to assess how PPPs could be used, and to develop a firmer project pipeline which can then be implemented.