

ADB Assistance for PPPs in Infrastructure Development

Public-private partnerships (PPPs) have been gaining recognition in many developing member countries as an important means of mobilizing private sector capital and expertise for infrastructure investments and service provision. The **special evaluation study**¹ evaluates the performance of ADB's public and private sector operations in support of PPPs in the power, transport, and water sectors, and the development of related policy, legal, regulatory, and institutional frameworks in the past two decades (1988–2008).

Background

The Asian Development Bank (ADB) provided assistance for PPPs through 38 loan projects supporting policy dialogue on the development of legal, policy, or institutional frameworks for PPPs; performance-based service or management contracts for ADB-funded public infrastructure; government equity stakes in PPP arrangements; complementary public sector infrastructure investments for PPP projects; development PPP projects; and long-term financing. Seventy-three TA projects supported the identification and preparation of pilot projects and PPP frameworks, and capacity development. In addition, ADB provided debt or equity of \$3.1 billion on a nonsovereign basis for 33 PPP projects and contributed to the financing of 9 infrastructure funds, which invested more than \$0.8 billion in private infrastructure projects, most of which had PPP structures.

Summary of Findings

The overall rating for ADB's public sector assistance for PPP is *successful*, albeit on the low side based on satisfactory strategic positioning, relevance, and efficiency ratings, but less than satisfactory sustainability, impact, and ADB performance ratings due to lack of adequate capacity development efforts, limited follow-on investment, and design issues reflecting comparatively low levels of PPP staff expertise and resources. ADB support for developing policy and regulatory PPP frameworks was rated *successful*, whereas assistance for developing PPP projects has been only *partly successful*. Assistance for PPPs in the power and roads sectors was *successful*, assistance for PPPs cross-sector and for railways are *borderline successful*, and assistance for PPPs in water and ports is *partly successful*. The overall rating

for **Private Sector Operations Department (PSOD)** PPP operations, as justified by underlying satisfactory ratings of development impact, investment profitability, work quality, and additionality, is *successful*. The strategic positioning of PSOD operations can be further strengthened through better coordination with public sector operations and proactive identification of PPP opportunities in line with overall country partnership strategy objectives.

ADB support for PPP has not substantially increased actual PPP transactions in most developing member countries (DMCs) for a number of reasons, e.g., unaddressed deficiencies in the country's overall investment environment, lack of institutional capacity, and the long time frame required for implementing underlying infrastructure and public sector reforms. While PSOD projects have performed to a satisfactory level, their impact on the creation of further PPP projects has been limited in DMCs that did not institutionalize demonstrated best practices. ADB assistance was most effective when it was focused, part of a long-term engagement, and integrated with sector reform initiatives that were supported by all relevant stakeholders. Sustained political will is the ultimate determinant of PPP success.

Initially promoted standard build-operate-transfer type modalities have proven useful in mobilizing additional investment funds for power generation and bulk water supply schemes, but did not help address underlying sector issues affecting demand for their output.

Some infrastructure sectors have been more conducive to private sector participation (PSP) and PPP than others. The power sector has received significantly

more private investment than the transport or water sectors, which is reflected in ADB's sector composition of PPP assistance. This is due to a range of reasons including better potential for cost-recovery, higher political commitment due to the sector's importance for economic growth, lower levels of stakeholder resistance to PSP, greater institutional capacity, more progress with sector unbundling and utility restructuring, the centralized nature of decision-making and funding, and the availability of established PPP procurement modalities. Nevertheless, this does not mean that PPP in other sectors is without prospects. With appropriate modalities, support for capacity development, and political commitment to sector reforms, PPPs have proven to be feasible in other sectors as well.

Lessons

PPPs are not a universal solution to underlying sector investment and performance problems. The respective costs and benefits associated with traditional public sector procurement and the use of PPP modalities have to be clearly established through public comparator analysis and value-for-money analysis.

PPP development requires sustained policy dialogue and support for the development of suitable legal, regulatory, and institutional frameworks and assistance in the development of PPP pathfinder projects. PSP is not a substitute for reform or government effort. On the contrary, many PPP modalities require prior sector restructuring and tariff reforms to be effective. The use of PPPs on a larger scale requires substantial government capacity for project identification and development, and the regulation and monitoring of PPP contracts and their fiscal impact. Support for policy reforms, capacity development, and pilot transactions can often proceed in parallel. Hands-on experience gained in developing and negotiating PPP pilot projects can serve as a valuable input for the development of PPP policy frameworks. A decision on whether to support overall or sector-based institutional and legal frameworks for PPP should take into consideration country conditions. The feasibility of PPPs in countries where public services have been devolved to subnational and local governments has to be carefully assessed, as past efforts in this regard have been less successful due to lack of institutional capacity, economies of scale, and funds.

PPP modalities have to be carefully chosen to address identified sector development needs. Overall system efficiencies have to be considered in network-dependent infrastructure, particularly in the water sector. Development of road PPPs usually requires the

government to assume demand risks and/or provide financial support, as it is usually difficult to charge tariffs that cover costs.

Recommendations

- To operationalize **Strategy 2020**, changes are required in ADB's support for PPP development, such as (i) stronger linkages between PPP support and other ADB sector operations; (ii) improved assistance for project development, new PPP modalities and related capacity development; and (iii) greater involvement in the transport and water sectors. This will in turn necessitate greater strategic focus, internal coordination, incentives for regional departments to pursue PPPs, and strengthening of staff and consultant resources. A bankwide strategy for PPP development should be prepared to help address these issues.
- Support for PPP project development and related in-country capacity will be crucial for the success of future programs. Substantial assistance will have to be provided for (i) sector development planning that adequately considers the role of the private sector in infrastructure development; (ii) value-for-money analysis; (iii) adequate (pre)feasibility studies, land acquisition, and social and environmental assessments; (iv) appropriate risk-sharing arrangements between public and private sector partners; (v) the delivery and management of government PPP support, and the monitoring of fiscal implications; and (vi) advocacy and outreach programs.

Feedback

The study was completed in September 2009. **ADB Management's response** agreed with the report findings and recommendations. The **Chair's Summary of the Development Effectiveness Committee (DEC)** welcomed the management assurance to draw up a PPP corporate strategy along with a corporate business plan on PPP, which is reflected in the CPSs. DEC urged to have closer coordination between regional departments and PSOD. DEC saw merit in quantifying the benefits of PPP, wherever possible, in terms of public resources saved, and using related indicators in the development results framework.

¹ ADB. 2009. *ADB Assistance for Public-Private Partnerships in Infrastructure Development – Potential for More Success*. Special Evaluation Study. Manila. Available: <http://www.adb.org/Documents/SES/REG/SES-OTH-2009-31/SES-OTH-2009-31.pdf>