The Emerald Handbook of Public–Private Partnerships in Developing and Emerging Economies

Perspectives on Public Policy, Entrepreneurship and Poverty

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The Emerald Handbook of Public–Private Partnerships in Developing and Emerging Economies

Perspectives on Public Policy, Entrepreneurship and Poverty

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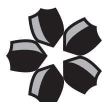

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Contents

About the Editors ix
About the Authors xiii
Foreword xxiii

Part I Understanding PPPs in Developing and Emerging Countries

CHAPTER 1 Top 10 Reasons Why (Not) and How (Not) to Implement PPPs in the Developing and Emerging Economies
Boštjan Ferk and Petra Ferk 3

CHAPTER 2 Infrastructure Development through Public–Private Partnerships in Africa
Emelly Mutambatsere 45

CHAPTER 3 The Degree of Private Participation in PPPs: Evidence from Developing and Emerging Economies
Maria Basílio 81

CHAPTER 4 Public–Private Partnership in Developing China: Evolution, Institutionalization and Risks
Ningzi Li and Qi Song 113

CHAPTER 5 Public–Private Partnership for Development: Governance Promises and Tensions
Stella Pfisterer 141

Part II Making PPPs Work for the Poor

CHAPTER 6 Pro-Poor Public–Private Partnerships for Development in Africa: Where Are Local Communities?
Kei Otsuki and Bram van Helvoirt 167

CHAPTER 7 Public–Private Partnerships for Agricultural Transformation – Trends and Lessons from Developing Countries
Marlo Rankin, Eva Gálvez Nogales, Pilar Santacoloma, Nomathemba Mhlanga and Costanza Rizzo 191

CHAPTER 8 Understanding the Nature of PPPs in Social and Commercial Infrastructure Sector using Qualitative and Quantitative Indicators: Insights from Emerging India
Upinder Sawhney and Tanvi Kiran 221

CHAPTER 9 Making PPPs Work for the Poor: PPPs at the African Development Bank
Elsa de Morais Sarmento and Khaled Hussein 247

Part III Public Policy, Public Management Practices and Entrepreneurship

CHAPTER 10 How to Support African PPPs: The Role of the Enabling Environment
Thibaut Mourgues and Christian Kingombe 269

CHAPTER 11 Social Entrepreneurship as a Success Factor in Public–Private Partnerships: Three Case Studies from Pakistan
Sacha St-Onge Ahmad and Mohsin Bashir 311

CHAPTER 12 Public–Private Partnership Evolution in Kosovo: An Approach to Achieve the Dream of Being an European Union's Member
Liliana Reis 335

Part IV Implementation and Evaluation of PPPs: Practical Considerations and Case Studies

CHAPTER 13 Achieving Affordability in the Delivery of PPP-Based Services
Arthur L. Smith 363

CHAPTER 14 Infrastructure Development through PPPs: Framework of Guiding Principles for Sustainability Assessment
Nilesh A. Patil, Boeing Laishram and Ganesh A. Devkar 385

CHAPTER 15 Public–Private Partnerships for Sustainable Healthcare in Emerging Economies
Roberto Moro Visconti, Anna Doś and Asli Pelin Gurgun 407

CHAPTER 16 Boosting Public–Private Partnership in Infrastructure: PPP Expansion in Colombia
Francisco Carballo-Cruz 439

CHAPTER 17 Towards Rethinking Public–Private Partnership Implementation: Insights from the Nigerian Context
Osikhuemhe O. Okwilagwe 465

CHAPTER 18 Opportunism Galore: The Case of Delhi–Gurgaon Super Connectivity Limited
Swapnil Garg and Diptiranjan Mahapatra 489

CHAPTER 19 Practical Considerations on the Implementation of Public–Private Partnership in Water Utilities in Emerging Markets of Central Asia
Tatjana Volkova and Murod Sattarov 513

CHAPTER 20 Public and Private Partnerships for Renewable Energy Enhancement in Developing Countries: A Case of the Solar Rooftop Project in Gujarat, India
Younsung Kim and Kyoo-Won Oh 537

CHAPTER 21 Unsolicited Proposals in Infrastructure – Lessons from Brazil and Chile
Fernando T. Camacho, Bruno C. L. Rodrigues and Heldo M. M. Vieira 559

CHAPTER 22 Theory-Based Evaluation of Public–Private Partnership Projects and Programmes
Mehmet Uzunkaya 579

Index 605

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Foreword

The interest and use of Public–Private Partnerships (PPPs) to plan, build and deliver infrastructure worldwide have grown substantially over the past decade. PPPs offer governments, private sector stakeholders, and donors a complementary approach to development solutions at times when traditional funding for development is under strain, while also convening power and synergies for leveraging their talents, expertise and technology. PPPs have enabled the public sector to raise capital and bridge the financing gap, whilst making efficiency gains along the process. As an African proverb that states, 'If you want to go fast, go alone. If you want to go far, go together'. Just like marriages, PPPs require a long-term relationship, serious commitment and a constant effort. When successful, PPPs can be powerful unions where the final outcome is greater than the sum of the parts.

The major benefit of PPPs is their ability to deliver value for money in public service procurement and operations. But PPPs are being asked more than ever to respond to the call to improve the economic and social value equation of investments. However, certain key factors are necessary for this to be successful. These start by a clear institutional framework to govern PPPs combined with legislation and enforcement, political will, transparency, an adequate level of capacity in public institutions, as well as a dynamic and prepared private sector. Every step from conceptualization, feasibility studies, design, financing, construction, operations, maintenance, to stakeholder communication takes substantial coordination and planning. Under the current circumstances, it is unlikely that many countries at the bottom of the development pyramid can meet this daunting challenge on their own. Several do not yet meet international agreed minimum standards for infrastructure and regulatory oversight, this being primarily not only a financial challenge, but also a problem of good governance and political will. Thus, decisions to invest in developing and emerging economies seem to be relatively more

determined by factors related to the institutional environment and governance framework, the economic and political predictability, the market dimension and the end-user purchasing power. This highly compromises local private fund raising, and developing countries often find themselves struggling to attract foreign direct investments in parallel to forming PPPs, as long-term finance needs to come from external financiers. At the same time, private sector investors and financiers have not been able to find enough pipelines of bankable or investment-ready projects.

The focus on value for money approaches has not always addressed equally well welfare changes of the affected communities. Although large-scale infrastructure projects can play a critical role in alleviating poverty, they do not necessarily meet all the day-to-day needs of communities living in the developing world as they often take a long time to roll out and are costly to implement. It has increasingly becoming clear that the new waves of investment projects implemented through PPPs have created a complex network of effects on local contexts. As earlier experiences of investment projects have shown, PPPs must take seriously into account the impacts on local communities and marginalized groups, as well as address any negative and/or collateral effects produced by their implementation and activity, if they wish to become genuinely pro-poor (Otsuki, Read, & Zoomers, 2016) and sustainable. The fulfilment of both value for money and wellbeing objectives for PPP investments constitutes an added challenge for the future, requiring a larger focus on the assessment of the additionality of PPPs and the intricacies of their impact on poverty alleviation and inequality.

Understanding how PPPs can better contribute towards developing and emerging countries' development and inclusive growth in a post-2015 framework is at the core of this Handbook. The world economy has become very dynamic and changed dramatically over the past two decades since the Millennium Development Goals (MDGs) were agreed. Some low-income countries with chronic development problems started growing and became major contributors to global growth. In parallel global poverty has fallen at an unprecedented rate. In 2013, the year for which the most comprehensive data on global poverty is available, an estimated 10.7% of the population still lived below the international poverty line of 1.9 US$ per person per day, compared to 35% in 1990 (World Bank, 2016a). Moreover, global inequality has diminished for the first time since the industrial revolution, but between country inequalities

remain at a much higher level than inequality within countries (World Bank, 2016a). Despite all this progress, over 750 million people still live below the poverty line (Cruz, Foster, Quillin, & Schellekens, 2015), of which more than a half live in emerging and developing countries.

The long-standing academic debate on poverty and its connection with inequality has been very fruitful especially after the high visibility of works such as those developed by Piketty and Saez (2003) and Piketty, Saez, and Stantcheva (2014). They paved the way for further work, such as that by Bapuji and Neville (2015), focused on the analysis of the socio-political consequences of high income inequality on business. This paper concludes that income inequality substantially impacts on firms and markets, as high levels of income inequality may bring about social movements which will limit firms' actions, giving rise to alternative organizational forms which replace existing ones. Furthermore, high-income inequality impacts negatively on firm performance and survival by fostering the emergence of new political and regulatory risks.

In the context of developing countries, inequality also tends to increase entrepreneurship measured through total entrepreneurial activity (Hillel, 2002), being this effect conditioned by a series of moderating factors (Meh, 2005), namely financial constraints acting as determinants of firm creation and households' stock of wealth (Hurst & Lusardi, 2004). Human capital among the poor, the stock of skills and the scarcity of capital also play an important role in determining necessity-entrepreneurship (Barnerjee & Duflo, 2007). These factors have led Acs and Armington (2005) to advocate that the role played by income inequality still deserves further research (Deutsch & Silber, 2004).

Given this setting, the post-2015 framework was developed around a growing consensus about the possibility of dealing with inequality and ending extreme poverty. In this regard, multi-stakeholder partnerships have been considered quintessential to the achievement of these development priorities (United Nations, 2015a). The 2030 Agenda for Sustainable Development (2030 Agenda) calls for a 'collaborative partnership' in order to implement 17 Sustainable Development Goals (SDGs) and 169 targets (United Nations, 2015b). The post-2015 framework emphasizes even more than the MDGs did the role of domestic institutions in contributing towards the end of poverty, the fight against inequalities and climate change. The interest created around the

role PPPs can play in the implementation of the SDGs and in the alleviation of poverty, in particular in developing and emerging countries is thus considerable.

PPPs are a good platform to support financing and help implement the SDGs, while the latter are also a good framework to fine-tune PPP design and implementation. PPPs and SDGs should thus be aligned and synergized. This addresses the underlying statement of objective of SDG 17, which calls unambiguously for 'Partnerships: public, public–private, civil society partnerships' and for global partnerships for sustainable development. In particular, the establishment of 'effective public, public–private and civil society partnerships' is explicitly encouraged and promoted. SDGs should eventually trickle down to public sector procurement processes (UNEP, 2015), including considerations associated with the establishment of distinct models for PPPs.

An additional aspect raised by the previously referred 2030 Agenda is the goal of 'leaving no one behind' and the imperative to address the needs of the poorest and most vulnerable. The pro-poor PPP concept, usually abbreviated under the simplified moniker '5Ps', has gained traction in recent years around the role of partnerships, and especially PPPs, in support poverty alleviation and the vulnerability of low-income groups. The 5Ps explicitly target the provision of services to low-income groups which tend to be overlooked in traditional PPP models in that private sector participants perceive higher risks and lower returns on investment, for example due the low-cost structure of those customers, lower levels of consumption, or the absence of a payment culture within a given community (ADB, 2016). By reaching the poorest customer base, they have the potential to unleash the participation of small and informal entrepreneurs and leverage micro-finance schemes. The commitments and policy directions outlined in the Addis Ababa Action Agenda and the outcome document of the Third International Conference on Financing for Development, convened under the auspices of the United Nations (United Nations, 2015c), further elaborates on the role that private sector actors can play in addressing development challenges.

The ambition and challenges contained in the UN's 2030 Agenda are enormous and thus new PPPs frameworks are needed. While the 2030 Agenda underpins the existence of a broad, almost universal recognition that PPPs can make a strong contribution to the achievement of SDGs, it also lays bare the difficulties and complexities associated with the set-up of

well-functioning PPP arrangements, especially if posed from the perspective of government authorities, either national or sub-national, which occur in view of the context and sectorial specific nature of PPPs. Furthermore, beyond the more obvious challenges for developing countries, emerging markets also struggle with immature financial markets and a lack of bankable projects, as investments in basic infrastructure often require substantial hard currency investments.

In parallel, there has been a major transformation of the international financial scene. Both domestic and international flows have grown at a fast pace and the mix of resources now available is fundamentally different from that of the last two decades. More recently, Multilateral Development Banks (MDBs) came together to launch 'The Global Infrastructure Forum' (an outcome of the Addis Ababa Action Agenda on Financing for Development), with a new approach for infrastructure development within the objectives of the Paris Agreement and the SDGs, to provide a platform for governments, MDBs, United Nations agencies, and other development partners to mobilize resources for infrastructure improvements. Developing and emerging economies are now able to reach out to a larger, more diverse and innovative range of financial resources than ever before. Consequently, efforts to stimulate the uptake of new and innovative financing instruments to facilitate access to finance have grown and have become a core objective of policies and programmes.

But these innovative financing mechanisms have also been driving global goals forward. In 2016, at the Third International Conference on Financing for Development, the UN pointed out the key roles of 'public and private investment' in infrastructure financing through various tools and mechanisms, such as PPPs and blended finance. Blended finance instruments are already being used in support of PPPs to lower investment risks and foster additional private sector finance across key development sectors (Pereira, 2017). Moreover, impact investment is gaining traction among governments, investors, Non-Governmental Organisations (NGOs), academia, and is expanding the range of opportunities available (Finance in Motion, 2014). But the achievement of these more ambitious objectives within the post-MDG setting needs to be supported by a pragmatic and costed strategy, able to attract and draw on domestic and international resources. To plan for and finance the end of poverty, one needs to understand the scale and scope of all potential resources,

including institutional capacity for PPPs and private sector collaborations.

The pipeline of well-designed and sound projects that both the public and private sector investors can confidently support at the global level is feeble and the actual infrastructure investments still fall far short of demand. Despite the increase of private sector's participation in infrastructure finance in recent years, namely in the telecommunications and electricity sectors, private finance still provides a small share of aggregate infrastructure investment in the developing world (Ks, Chowdhury, Sharma, & Platz, 2016). In the poorest of the poor, the situation worsened since 2012. In 2015, Private Participation in Infrastructure (PPI) investments and the number of projects reached its lowest level in International Development Association (IDA) countries[1] since 2011 (World Bank, 2016b). Recent research has estimated around 3.3 to 4.5 trillion US$ of investment per year is needed just for global infrastructure to keep pace with its projected growth (Global Impact Investment Network, 2016; World Economic Forum, 2013) and 5 to 7 trillion US$ per year to achieve the SDGs on infrastructure, water, sanitation, clean energy and agriculture. Driven by a growing population, economic growth, urbanization and industrialization, this financing gap is estimated at 2.5 trillion US$ per year in the developing world alone (UNCTAD, 2014).

The sustainable growth and progress of developing and emerging countries hinges greatly on the provision and maintenance of adequate infrastructure and access to basic services. A precondition for tackling this issue is understanding what resource flows are available. Domestic resources, fundamental for engendering PPPs, still represent the largest pool of funds available to developing and emerging countries. In 2010, government expenditure totalled 4.8 trillion US$ in all developing countries (Strawson, 2013), while the sum of all foreign flows received by developing countries (international resource flows) was estimated at around one-third of that of total government expenditure. But even if several countries are on a path of growing domestic resources and shrinking resource constraints, a second group of countries, largely fragile states in sub-Saharan Africa, are likely to face continued domestic resource constraints. The

[1]As defined by the World Bank, IDA countries are those whose Gross Net Income (GNI) per capita is below the threshold of 1,215 US$.

effects of these constraints are most likely to affect the poor, at least in the short to medium run, as they hamper the capacity of public and domestic institutions to implement interventions aligned with poverty alleviation. Even if international community efforts (in the form of technical support and capacity building), and their resources both have an important role to play in supporting and adding to domestic efforts, PPP approaches will tend to be increasingly differentiated between these two different types of countries. It is thus necessary to consider how to help improve the way countries are supported in the development of their own strategies to attract private sector investment and form PPPs in much-needed sectors, especially in those with the greatest needs.

PPPs have remained on top of the policy agenda worldwide, but the availability and credibility of information and resources to support governments and their advisors in their decision-making on PPPs has not kept an equal pace. Recently, new initiatives were launched to address this gap, such as the PPP Knowledge Lab, the Public–Private Partnership Reference Guide, or the UNECE's 'People First Public-Private Partnerships', which deals with the challenges contained in the UN 2030 Agenda for Sustainable Development, constituting major advancements in this domain.

Reflecting the momentum of these initiatives and the rising interest from multiple governments and global leaders, we are excited to have taken on the opportunity to become editors of this Handbook, which tries to address, in a pioneering way, a growing demand by public officials and practitioners for information and tools to develop, benchmark and evaluate the effectiveness of PPPs, as well as to create the appropriate conditions for these to prosper and contribute to SDGs.

This Handbook aims to support policy-makers, national governments, national and regional public administrations, PPP officers, practitioners, international institutions, development agencies, financial institutions, academia and the evaluation community, in the design, implementation and assessment of appropriate responses to foster PPPs uptake in the context of developing and emerging economies. It aims to be a valuable information resource and a practical guide, not only by documenting the key role of PPPs in developing and emerging countries, but also by exposing cross-country diversity in respect to their institutional and governance framework, strategic resources and business environment. These dimensions are particularly relevant as PPPs are also affected by barriers and inefficiencies in

the business environment and market failures in the knowledge-based economy.

This Handbook resulted from highly valuable contributions of a diverse range of authors originating from three international organizations (African Development Bank Group, United Nations and World Bank Group), the Brazilian Development Bank (Banco Nacional de Desenvolvimento Econômico e Social) and the Instituto Brasileiro de Administração Municipal (IBAM), and academic institutions from 12 countries (China, India, Italy, Latvia, Mexico, the Netherlands, Pakistan, Portugal, Slovenia, Turkey, the United States, and the United Kingdom).

Several key aspects associated with the processes of designing, implementing, operating and evaluating PPPs are discussed in this Handbook, in connection to the creation of better conditions to ensure PPPs result in the highest value for public money and welfare, within the SDGs framework. In particular, this Handbook covers the following core areas: recent trends on PPPs in developing and emerging economies, public policy practises and social entrepreneurship, implementation and evaluation of PPPs, empirical analysis of PPP determinants, identification of the constraints, triggers and determinants to PPP implementation, guiding principles for PPP sustainability, and finally, lessons learned and emerging best practices from a range of case studies.

The Handbook is structured in four parts. Firstly, Part I: Understanding PPPs in Developing and Emerging Countries, introduces the key definitions, concepts, risks and tensions relevant to the institutionalization of PPPs, then presents the drivers of investment in these countries, and finally considers the importance of the governance of the PPP framework.

In Chapter 1, Boštjan Ferk and Petra Ferk analyse the implementation of PPPs in the developing and emerging economies as a multifaceted challenge. The authors highlight key aspects, as well as key 'for' and 'against' arguments to be taken into consideration by governments when implementing PPPs, namely: feasibility, planning, optimization, modernization and development, financing, project delivery, project operation, supervision, user satisfaction, and accounting issues.

In Chapter 2, Emelly Mutambatsere provides an analysis based on data from the World Bank's Public Participation in Infrastructure (PPI) project, covering the 1990–2013 period. In addition, the author uses hand-collected evidence on project performance in order to examine how PPPs are applied to infrastructure development in Africa and how the expected benefits were

delivered. The analysis reveals an increasing trend in terms of growth in both the number and volume of PPP investments, which are weaker and more volatile than those observed in other developing regions.

In Chapter 3, Maria Basílio performs an empirical analysis on the determinants of the degree of private sector participation in PPPs in the context of developing and emerging countries through fractional response models, using data obtained from the World Bank's PPI database for the period 2000–2014. The results reveal that the type of project is a key determinant of the degree of private sector involvement. She concludes that favourable fiscal conditions and the existence of explicit support from the government increase the degree of private involvement. In addition, multilateral support reduces private participation, pointing to a substitution effect. In the same way, private sector involvement acts as a substitute to overcome failures in countries with poor financial systems.

In Chapter 4, Ningzi Li and Qi Song analyse the complex approval procedures in PPP implementation in China. The authors outline the disadvantages faced by partnerships established by governments and state-owned enterprises, due to the lack of specialized legislation, unequal competition between private companies and state-owned enterprises, and the opposition from civil society members. Furthermore, they identify political risks as the most influential, in the sense that the latter may lead to the misallocation of other risks between public and private parties, which then contribute to higher failure rates of PPP projects in China.

In Chapter 5, Stella Pfisterer identifies partnering approaches and governance orientations based on an extensive literature review concerning the emergence and evolution of partnerships oriented towards development cooperation. The main remarks stress that efficiency and participation orientation highlight competing governance rationales, logics and partnership characteristics. Moreover, the chapter outlines that in the context of partnership approaches, it is important to deal with the inherent governance paradox between control and collaboration.

Secondly, Part II: Making PPPs Work for the Poor. It presents the pro-poor PPP concept and how it can be applied to local communities, to agricultural transformation in developing countries, and to social and commercial infrastructure.

In Chapter 6, Kei Otsuki and Bram van Helvoirt explore how and to what extent pro-poor PPPs projects engage with local

communities and which possibilities exist for communities to become genuine partners with governments, businesses, and civil society organizations. The authors analyse three different PPP projects funded by the Dutch international cooperation agency with a pro-poor emphasis in Africa and find varying patterns of how local communities are positioned to benefit from each project. The main findings reveal that in existing pro-poor PPP projects, local communities are there to either be consulted (mere beneficiaries), or to become business partners, or else to lead the project. Each PPP project made a particular assumption about the capacity and need for a local community to get involved in the project, and this is materialized through how local communities are treated in the PPP modality. In Chapter 7, Marlo Rankin, Eva Gálvez Nogales, Pilar Santacoloma, Nomathemba Mhlanga and Costanza Rizzo examine the potential of PPPs to contribute to the achievement of rural transformation objectives in the agriculture sector of developing countries. The authors take as reference the work developed by the United Nations Food and Agriculture Organization (FAO) (2016), in which 70 case studies of agri-PPP projects from 15 developing countries in Africa, Latin America and Asia were analysed. The authors identified a set of four common project types, namely: (i) partnerships that aim to develop agricultural value chains; (ii) partnerships for joint agricultural research, innovation and technology transfer; (iii) partnerships for building and upgrading market infrastructure; and (iv) partnerships for the delivery of business development services to farmers and small enterprises. The main findings suggest that while positive contributions to agricultural transformation objectives exist, there are still open issues associated with the impact of agri-PPPs on poverty reduction and inclusion, which still merit further research efforts.

In Chapter 8, Upinder Sawhney and Tanvi Kiran, provide a detailed account of qualitative and quantitative information through an indicator analysis approach, which aims at enabling stakeholders (including government agencies, policymakers, domestic and foreign private investors as well as general public) to have a better understanding of the PPPs factors in the social and commercial infrastructure domains in India. The findings relate to the future implementation of PPP projects in the social sector, which is particularly relevant for human development in the context of developing economies.

In Chapter 9, Elsa de Morais Sarmento and Khaled Hussein approach the African Development Bank's (AfDB) current thrust

into infrastructure development and the strategic context of PPP employment during the 2006–2014 period, analysing the role played by the Bank in implementing PPPs in Africa. It covers a portfolio of 33 PPP projects in 18 countries, in which 64,4% of the its volume allocated to lower middle income countries and 23,3% to low income countries. The authors also use information drawn from the AfDB's 'Evaluation Results Database', covering the 2001–2012 period to provide insightful lessons learned. The authors conclude that PPP projects in Africa should be necessarily complemented by policy work, technical know-how provision and post transaction support, as it is necessary to support the development of a 'soft infrastructure' in order to reap all the benefits from physical infrastructure provision.

Thirdly, Part III: Public Policy, Public Management Practices and Entrepreneurship. It considers the enabling environment setup and social entrepreneurship as success factors to support and streamline PPP implementation.

In Chapter 10, Thibaut Mourgues and Christian Kingombe provide a selective review of the vast literature on PPPs and a first-hand experience on the ground. The authors advocate that PPPs are well suited to promote and accelerate the provision of public sustainable infrastructure in Africa. Moreover, they identify a highly valuable set of shortcomings and pitfalls through a holistic approach, by handling one by one all the key aspects of project preparation considered as an integral part of the institutional framework for PPPs.

In Chapter 11, Sacha St-Onge Ahmad and Mohsin Bashir survey the reference literature on social entrepreneurship and identify the main traits of social entrepreneurs. The authors collected data both from primary (i.e. interviews with leaders' former colleagues) and secondary sources (using grey literature, independent reports, web searches, and the implementing partners' websites). The main findings reveal that social entrepreneurship is an important driver of PPP success. The authors conclude that the PPPs under analysis had a focal person, the social entrepreneur, who exhibited critical qualities for the success of the partnership.

In Chapter 12, Liliana Reis addresses the specificity of an European case, that of the recent Kosovar state, which denotes several fragilities that can jeopardize, on the one hand, the growth of the country and, on the other hand, the desired consolidation of independence. The author positions PPPs as an additional alternative instrument for fostering the economic and

political success of Kosovo, thus helping to meet the requirements needed for a future membership to the European Union. The author concludes that in the near future, PPPs could pave the way for Kosovo's desired achievement of stronger economic growth, the ruling out of corruption and a rapid convergence to European standards.

Fourthly, Part IV: Implementation and Evaluation of PPPs: Practical Considerations and Case Studies. It provides practical considerations for the implementation of PPPs in service-based sectors and infrastructure; introduces a theory-based approach to PPPs evaluation to ensure credible performance evaluation processes and the full compliance with public policy objectives. In addition, it provides empirical evidence of the relationship between project characteristics and macroeconomic and institutional factors affecting the degree of private sector participation in infrastructure PPPs in developing countries. Moreover, it discusses the experience of Brazil, Chile, Colombia, Nigeria, Senegal, Turkey, India, and Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan) in implementing PPPs. Finally, it presents key guiding principles to ensuring long-run sustainability and value for money in infrastructure PPPs.

In Chapter 13, Arthur L. Smith examines three PPP projects from different sectors which used creative mechanisms to enhance affordability and expand the user base. These are the Pamir Power project in eastern Tajikistan, the urban water PPP in Dakar (Senegal), and the East Coast Toll Road in Tamil Nadu (India). The author provides several insightful findings on how these experiences can be expanded and become a part of a PPP's planning process to arrive at a more affordable and sustainable growth, in the context of developing economies.

Finally, in Chapter 14, Nilesh A. Patil, Boeing Laishram and Ganesh A. Devkar use a grounded theory approach (interviews as primary and literature as secondary sources of data) to develop a framework of guiding principles to achieve goals of sustainable infrastructure development through PPPs. The study makes use of the core principles of sustainability postulated by Gibson (2005). This framework is comprised of eighteen guiding principles, which are due to act as guidelines of sustainable practices throughout the life-cycle of a PPP infrastructure project.

In Chapter 15, Roberto Moro Visconti, Anna Doś and Asli Pelin Gurgun describe what can be learned by developing countries from the developed ones, as to the management of PPPs projects oriented to the provision of healthcare. Turkey's successful

experience is used to frame how healthcare PPPs can work for developing countries. Additionally, benchmarks and best practices are provided for guiding the future implementation of successful healthcare PPPs.

In Chapter 16, Francisco Carballo-Cruz develops a case study, based on the the PPP model adoption in Colombia, where its new legal and institutional framework is described and the most relevant PPPs programmes and projects are presented. The author points out that, despite the developments in recent years, PPPs schemes continue to be very concentrated in the transport sector. He suggests that the government should extend these type of partnership schemes to other areas, including the provision of social infrastructure and services. It should also aim to improve some institutional aspects and project attractiveness to investors in order to increase private capital, required to finance PPP projects which currently make part of the government's portfolio.

In Chapter 17, Osikhuemhe O. Okwilagwe analyses the institutional context in which PPPs operate in Nigeria, given that the country's government has been opening its infrastructure markets to private sector provision. The author uses data that was collected through semi-structured interviews with key stakeholders involved in two infrastructure PPPs – a Toll Road Partnership and Bus Transport Partnership – to conduct a thematic analysis. The main findings reveal that the Toll Road Partnership and Bus Transport Partnership were established with both partnerships sharing a common vision and concerns towards the provision of infrastructure and public services in Nigeria. Both partnerships faced challenges attributed to bureaucratic practices in government institutions, disruptive actions of external actors and ineffective mitigation of project risks.

In Chapter 18, Swapnil Garg also addresses the problematic of Infrastructure PPPs, especially in what regards long-term infrastructure concessions, which are usually governed by ex-ante contractual arrangements which seek to mitigate opportunism and allocate optimal risks between public and private actors. He describes the dynamic nature of opportunism over the life cycle of a highway project in India which has flaunted a galore of opportunism for over one and a half decades. The rationale is based on the fact that the opportunistic stance displayed by actors' behavioral changes over time is determined by several different factors, which need to be taken into account to fully understand PPPs when a life-cycle lens is used in the analysis.

In Chapter 19, Tatjana Volkova and Murod Sattarov provide a pragmatic logical framework to enable decision-makers to be more familiarized with successful factors of PPP implementation. If applicable, this logical framework could improve efficacy and sustainability of PPP undertakings in the water supply sectors in developing countries. Based on case studies from urban water utilities in Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan, the article takes stock of the last two decades of efforts to upgrade the drinking water supply infrastructure of Central Asia, and the meagre outcomes produced by these investments.

In Chapter 20, Younsung Kim and Kyoo-Won Oh provide an overview of renewable energy development in the context of developing economies, using the World Bank's Private Participation in Renewable Energy Database. The authors examine a pilot PPP of a 5 Megawatt solar project in Gujarat, India, which was implemented in 2012, in partnership with large multinational private utility firms. The authors stress the importance of the so called 'Green Incentive' given to rooftop owners, which empowered local residents to be part of the project as co-producers of electricity. The authors also provide highly valuable insights into the promise of PPPs for small-scale electrification promoting global sustainable development.

In Chapter 21, Fernando T. Camacho, Bruno C. L. Rodrigues and Heldo M. M. Vieira analyse Unsolicited Proposals in Brazil and Chile and compare these countries' experiences in several dimensions, including the transaction costs and the existence of regulatory tools to mitigate potential conflicts of interest. The findings suggest that non-proponents rarely win the tender for a project based on an USP. Moreover, the USPs may work better in infrastructure sectors where the government has developed higher capacity to take advantage of its own in-house expertise. In addition, USPs appear to work best for projects that are clearly economically viable ex-ante, generally in dense urban population centres. The authors also stress that, in specific conditions and with the appropriate design, USPs may result in successful projects and private sector innovation, although this could lead to higher transaction costs for the government.

In Chapter 22, Mehmet Uzunkaya describes the theory-based evaluation process of PPP projects/programmes and proposes an intervention logical framework. The author outlines the importance of going beyond the measurement of project/programme results, in order to address not only the question of whether or not the project/programme worked, but also how and why.

In addition, he develops a theory-based analytical framework that identifies an explicit path towards ultimate impacts so as to assess, in a more systematic and integrated way, the success or failure of a PPP.

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PART I
Understanding PPPs in Developing and Emerging Countries

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CHAPTER

1 Top 10 Reasons Why (Not) and How (Not) to Implement PPPs in the Developing and Emerging Economies

Boštjan Ferk and Petra Ferk

ABSTRACT

The purpose of this chapter is to analyse Public–Private Partnerships (PPPs) in the developing and emerging economies as a multifaceted challenge from viewpoint of the 10 keys 'for' and 'against' PPPs: feasibility; planning; optimization; modernization and development; financing; project delivery; project operation; supervision; user satisfaction and accounting issues. The conceptual model and the reasons were formulated by the authors some 10 years ago, based on the literature and case-study reviews. Relevance of those reasons was verified in practice. The knowledge and critical perspective on the above-stated reasons are relevant for the implementation of PPP projects in any national economy – developed, emerging or developing, but it is quintessential for the implementation of PPPs in the economies that are at the early stage of implementation of PPPs. Although for

the identification of the above-stated reasons, wide comparative literature and case-studies review was conducted, the reasons were verified in practice in Slovenia only. Slovenia is considered as one of the most advanced transition countries of Central Europe and a developed economy. This chapter can improve public policy, teaching, learning and practice of PPP implementation in developing and emerging economies. The value of this chapter is in the approach which goes beyond the usual defending or renouncing of PPPs. This chapter also clearly identifies the importance of a sincere motive for the implementation of PPPs by the government as a prerequisite for the successful implementation of PPPs.

Keywords: Public–private partnerships (PPPs); developing and emerging economies (E7); arguments for and against PPPs; public relations (PR) strategy; motive for implementation of PPPs

Introduction

The concept of Public–Private Partnerships (PPPs) refers to various forms of cooperation between public and private sectors for the provision of public services and/or public infrastructure in the public interest.

It was based on the assumption that the private sector generally provides public goods more efficiently and at more reasonable prices than the public sector. This is presumably caused by the free-market mechanism, where the quality and cost of providing public goods is balanced at the optimal point arising from the free-market manner of operation which regulates supply and demand. However, when discussing the provision of public services and public infrastructure, the mechanisms of the free market often cannot be followed, namely through the prism of economic criteria, satisfying the public interest is frequently not eligible, yet required by the citizens. Functional dimension of public services therefore recognizes public services as activities that must be performed for various reasons in the public interest under a special regime. Public services are therefore activities that cannot be partially or fully performed in the market within the

context of market mechanisms and in particular on two grounds, either the activity in the market does not function or it should not be left to function.[1]

According to Duguit, the founder of public services, the term 'public service' was created on the day when the differentiation between *rulers* (*gouvernants*) and *ruled* (*gouvernés*) arose. Although the reasons for this differentiation were historically conditioned and diverse, Duguit argued that, from the very beginning, the ruled recognized they can impose the rulers with some obligations, while the execution of these obligations is at the same time reason and consequence of their existence and power (Duguit, 1929). In our view, this still remains the essence of the public services. Public services are to be provided by the *rulers* (governments) in countries around the globe, as provision of public services gives the *rulers* the legitimacy to rule; although the set quality and standard of those services necessarily vary around the globe and are influenced by various factors. Nonetheless, they are demanded to be provided, and in times of severe financial situation the PPPs represent likeable possibility for provision of public services and public infrastructure.

Although in emerging and developing economies, the financial situation is scarce, it seems that many of them are reluctant towards introducing PPPs into their national economies due to various reasons.[2] However, in many developing economies, the use of PPPs is evolving,[3] e.g., the use of the private sector in furthering public health goals in low- and middle-income countries (LMICs) is increasingly common (Whyle & Olivier, 2016).[4]

Devoting special attention to the development and proper implementation of PPPs in emerging and developing economies is of special importance for further global development. In the next few decades, the global economic power will shift from G7[5] to the

[1]See Ferk and Ferk (2008).
[2]Cf., e.g., Estache (2005, 2006).
[3]Cf., e.g., Mahalingam, Devkar, and Kalidindi (2011), Jamali (2004), Ciccone (2010), Forsyth (2005), Osei Kyei and Chan Albert (2016), Shiji (2014), Kim (2015), and Pessoa (2008).
[4]Cf. Kosec (2012). The author concludes by reviewing the South-Asian context and its very limited experiences with private sector participation (PSP) in water compared to Africa, while PSP being a potential (partial) solution to a long list of water sector problems and distortions in South Asia, influencing health of children.
[5]G7 economies is the group of advanced economies of Canada, France, Germany, Italy, Japan, the United Kingdom and the United States.

E7[6] economies. By 2017, the E7 emerging economies could be twice the size of developed markets, growing to make up almost 50% of the world gross domestic product, as assessed in the recent PricewaterhouseCoopers prognosis (2017). Consequently, the emerging and developing economies will significantly shape the well-being of the majority of the population. PPPs can be an effective instrument for filling the infrastructural gap and providing public services to increasing global population – if introduced and implemented properly.

This chapter aims to analyse the implementation of PPPs in the developing and emerging economies as a multifaceted challenge, and to point out the key aspects to be considered by governments when implementing PPPs, either on a strategical level or when implementing individual projects. The key issues are elaborated through 'for' and 'against' arguments as we have identified them: feasibility; planning; optimization; modernization and development; financing; project delivery; project operation; supervision; user satisfaction and accounting issues. The arguments follow the project cycle.

In the first part of the chapter, we briefly introduce the historical evolution of the PPP and elaborate how PPP differentiates from the concepts of privatization and liberalization. This is an important issue from the viewpoint of political tendencies and objectives pursued by individual states when implementing PPP. Next, we presented the importance of a (sincere) motive for the implementation of PPPs as a key enabler for success. In the second part of the chapter, we present the top 10 advantages and disadvantages for implementing PPPs. The chapter takes a critical perspective of a continuously present challenge: to understand the main advantages of PPPs, which may prove beneficial in project implementation, and even more so its weaknesses, which must be addressed properly, prior to initiating PPPs.

PPPs Stood Up to the Test of Time and Became the Global Necessity

In this section, we examine the context and historical background of PPPs. The historical development of PPPs plays an important

[6]E7 economies is a group of emerging market economies of Brazil, China, India, Indonesia, Mexico, Russia and Turkey.

role. Being familiar with the historical background can prove important as it can help governments to avoid repeating past mistakes. A clear distinction between the concepts of PPPs and privatization bears the same importance. Namely, a wrongful perception on this matter might result in severe consequences when implementing the projects.

Academic literature often features the opinion that the concept of contracting out essential public services is generally thought to be a modern development. In particular, it is most closely associated with New Public Management (NPM), which was established in the 1980s in the United Kingdom while under the leadership of the conservative governments of Margaret Thatcher and her successor John Major (Bringenberg, 2008). However, further analysis in fact reveals that the concept of contracting out public services to private service providers is a concept deeply rooted in history, and that even the Roman Empire used it, e.g., in the transport of grain to the inhabitants of Rome. The provision of grain to the inhabitants of Rome was one of the most significant public services in the Roman Empire. Therefore, the Roman government developed a public system for the provision of grain (*annona*), in which the public sector actively participated. The key characteristics of this system were, *inter alia*, that it was based on long-term partnerships with private ship owners that it was established in the public interest of ensuring public order and peace and that the contracts included clauses dividing contractual risks between the parties.[7] Risk sharing between the government and private providers indicates a relatively modern approach and remarkably modern thinking even for this day and age, which may well fall under the concept of PPP according to modern criteria. This is especially important for combating the present prejudice towards PPP representing a modern innovation from the 1980s. Following the Roman era, in almost every historical period, one can find examples of various forms of private sector involvement in the provision of public services and goods.[8] The first known use of the term 'regal' in the European area was around 800 AD, i.e., in times of Regnum Francorum. The legal definition of the word is traced back to the 12th century and comes from Latin *ius regalium*, meaning *the regal power,* the ruling right reserved to the King. The modern successor of this

[7] See Charles and Ryan (2009).
[8] See Ferk, P. (2014, pp. 39–48).

regal power is represented by legal monopolies.[9] The development was granted legal codification during the Staufen dynasty.[10] In fact, the mediaeval statehood mainly relied on granting economically significant rights in exchange for political support. These rights were granted on the principle of exclusion, which is characteristic of economic monopolies. Exploitation of these rights granted monopoly rents.[11] Concessions developed in early Middle Ages. Although they were utilized as early as ancient Rome, when they were granted for the lease of state property; hence, the term *concessio*. However, the notion of concession then emerged in France about 1170, during the reign of Louis VI. The king gave the Parisians permission for the transportation of goods. Originally, the term 'concession' referred to the Latin *concedere*, to permit. Later, the term 'concession' referred not only to a permit but also to the supply of services to residents of towns and villages for the purpose of satisfying public needs. In the 13th century, the concept of concession began to be applied to the development and building of infrastructure, e.g., for the construction of bridges, for which the lords of the castle, as investors, collected the toll.[12] The next period, which features active cooperation between the public and private sector for providing public goods, is the 19th century, when the need for public infrastructure (roads, bridges, railroads), distribution of drinking water, electricity, communal infrastructure, etc., was further promoted by the rapid development of the industrial revolution and the growing number of citizens. In 1777 in France, the first concession for a public service was granted for water capture and distribution in Paris area.[13] The model of concession was emulated all over Europe[14] and worldwide. One of the most renowned cooperations between the public and private sector was the concession granted in 1854 for the construction and operation of the Suez Canal[15] (Hershlag, 1980; Levy, 1996).

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[9]Badura (1963, pp. 39–57).
[10]Kosi (1998, pp. 14, 160) and Vilfan (1996, pp. 130–131).
[11]Backhaus (1977, pp. 60–61a) and Badura (1963, pp. 45–49).
[12]See Mužina (2003, pp. 16–19).
[13]Among the first, a concession was awarded to Adam de Craponne in 1554 for the building of a canal on Durance River (the Craponne Canal). See Rosenthal (1992, pp. 111–112).
[14]See Pezon (2008).
[15]Hershlag (1980, str.129–138) and Levy (1996, pp. 19–21).

The trend of public–private cooperation changed course in the 20th century with the rise of etatistism, a response to the world wars and the great depression. During this period, the influence and role of the state in providing public goods was significantly strengthened.[16]

The ideas about active participation of the private sector in the provision of public goods gained new momentum with the recession in 1980s and the emergence of the NPM. Important elements of the NPM were *deregulation*, *privatization* and *marketization*, the ideas formed by the Chicago School of Economics.[17]

Following this doctrine, the conservative UK government in 1992 presented the Private Finance Initiative – PFI.[18] Simplified, the PFI provided that the private sector in the scope defined by the public sector take over design, financing, construction and management of hospitals, schools, prisons, etc. The public sector has in turn committed itself to pay for the services performed and/or pay the rental of premises for the agreed-upon period. After the expiry of this period, the ownership of these facilities is transferred from the private to the public sector. Today, we talk about the PFI model as the 'public party pay' PPP model, where payment is provided from the state budget – unlike the model of concessions, where the right to exploitation is transferred to the concessionaire and the end users pay for the provision of services.

Under this influence, PPPs have become a modern concept in discourse about public sector management following a British lead (Wettenhall, 2003).

However, analysis of numerous cases shows that PPPs following this doctrine often represented *the first step* towards privatization and/or liberalization of a certain public service or public infrastructure.[19] Consequently, the concept of NPM is broadly associated with the process of public sector privatization.[20] Even today, we can observe that the notions of 'PPP' and 'privatization' are often used interchangeably, not only by the general public but also by the experts, practitioners and sometimes even by academics. This has a global consequence; PPPs

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[16]See Geuss (2001).
[17]See Lane (1997, pp. 9–23).
[18]See Musson (2009).
[19]For elaboration on this widely presented view, see Hall (2015).
[20]Cf., e.g., Hood (1995).

are not seen in the best of light by the general public, and public opinion is one of the key factors for the successful implementation of PPPs. Therefore, the clear and consistent differentiation between PPPs and privatization is crucial.

The concept of privatization primarily refers to the transfer of ownership and/or responsibilities to implement certain activities from public to private sector. Proponents of privatization base their argument on the assumption that the process of privatization establishes a market environment, where the introduction of competition results in lower prices and simultaneous increase in quality. On the other hand, opponents point out that the provision of certain activities and goods cannot be left to the market, either because the market partially does not function (or does not function entirely) or because the public interest dictates that the provision of these services and goods should not be left to the market mechanisms. At this point, the concept of privatization collides with the concept of a modern welfare state, i.e., the concept of a social state with an existing social consensus that certain goods must be accessible to all and under the same conditions.[21]

When the public sector provides a certain public good in a specially established organizational form, the concept of privatization is understood as a sale (partial or complete) of this organizational form to the private sector. In a broader sense, one can understand this concept as an inclusion of the private sector into the provision of public goods, either through the public tendering system, through granting special public powers or through various PPP models. The process where the provision of certain public goods is liberalized to the point of losing its public law nature, and is consequently provided in the market, may also be understood as privatization.[22]

Therefore, when addressing PPPs in this context, it should always be explicitly stressed that 'proper' PPP implementation

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[21]For example, *Kovač* defines a welfare state as a sum of institutions and policies that provides (in market economy) socially acceptable resource allocation and redistribution of income, suitable political balance of powers, and certain security, equality and justice for its citizens. The key element of a welfare state is a 'reciprocal exchange of prosperity' among people, among those who contribute and those who receive aid (see Kovač, 2006).

[22]For more on this topic, see Savas (2005), Bach (2000), ILO, Working Paper 164, Pečarič and Bugarič (2011), Kay and Thompson (1986), and Vickers and Yarrow (1991).

does not mean that the provision of a certain public good is left to the market and is then exempted from the system of provision of public goods, but rather that a public service provider is replaced by a private one while the public good is still provided within the regime of public services. Accordingly, and this is crucial, the public partner still bears the responsibilities associated with the provision of public infrastructure and/or public services, and only the manner of their delivery is modified by the inclusion of private sector.

The 2008 financial crisis that spread into a general economic crisis exposed some weak points of the system that promoted rapid public sector liberalization and privatization.[23] The crisis affected many countries around the world, not only developing and emerging economies, but also Europe, which had been globally promoted as a social model of the society, and in many EU Member States it led to additional pressure on public finances. As a side effect, the crisis has undermined confidence in the 'omnipotent' power of the free market and free competition, which further waned through government interventions necessary to prevent a total collapse of the financial system. Logically, the financial crisis of 2008 onwards brought about a renewed interest in PPP in both the developed and developing countries (Public–Private Partnership in Infrastructure Resource Center, 2016). Europe, for example, seeks to address the resulting situation by involving the private sector and private capital in the provision of public infrastructure and public services. In its 2009 communication on releasing the potential of PPPs (European Commission, 2009), the Commission found that PPPs offer capacity to leverage private funds and know-how, and pool them with public resources. Additionally, European Fund for Strategic Investments (EFSI) was launched in order to help to overcome the current investment gap in the EU by mobilizing private financing for strategic investments.[24] It ought to be noted that the Nordic EU Countries also, which are traditionally considered as synonymous with the modern welfare state, have started to implement PPPs to provide public services and public

[23]Cf. Kitsos (2015).

[24]The EFSI is one of the three pillars of the Investment Plan for Europe that aims to revive investment in strategic projects around Europe to ensure that money reaches the real economy. The EFSI should unlock additional investment of at least €315 billion over a three-year period. For more information, see European Investment Bank (2017).

infrastructure,[25] for example 'Dutch Diamond Approach'. Namely, PPPs play a major role in implementing the Dutch development cooperation policy.[26]

Considering the global developments, we must recall the establishment of the United Nations Economic Commission for Europe (UNECE) International PPP Centre of Excellence (ICoE) in February 2012. The ICoE was established to address the capacity gap of governments on PPPs. The ICoE prepares international standards for 'People-first' PPPs, which are compliant with sustainable development goals. The ICoE explores this work with the cooperation of Centres of Excellence that provide best practices on PPPs[27] and international project teams who prepare standards under the UNECE standard-making procedures. The mission of the ICoE is to strengthen the impact of PPPs by putting people first in projects, eradicating poverty, supporting vulnerable members of the society and protecting the planet (ICoE, 2017). Additionally, we must mention the efforts of the United Nations Commission on International Trade Law (UNCITRAL) to revise the Legislative Guide on Privately Financed Infrastructure Projects (2001) and Model Legislative Provisions on Privately Financed Infrastructure Projects (2004).[28]

Therefore, even if one should accept the hypothesis that gradual privatization and liberalization of the public sector were the primary motives for the initial implementation of PPP models in the 1980s, we believe that they have developed into a tool for a more efficient provision of public services by including the private sector into the equation. PPP is a good alternative of active involvement of the private sector in the provision of public

[25]See Ferk (2016a, 2016b).
[26]See Government of Netherlands (2017).
[27]Until March 2017, seven centres of excellence have been established on different issues on different continents.
[28]At first, it was proposed to only update the existing Legislative Guide on PFI (2001). See the United Nations, Commission on International Trade Law (July 2014). However, on the expert meeting taking place on 7th and 8th March 2017 in Vienna (personal attendance), the experts were unanimous that the complete revision of the Guide on PFI Projects would be more appropriate in order to address the state of development. Namely, the current guide covers only the PFI model ("public party pay" model), while leaving out the scope of the concessions model as the PPP model, with user payments being the main feature. Therefore, the expert group suggested the revision of the Guide on PFI Projects to be proposed during the Commission's 50th session, which took place 3–21 July 2017 in Vienna.

goods that traditionally fall under the responsibilities of the state and local communities. Regardless of whether the primary motive for PPP implementation was 'less state, less public sector' – hence, the promotion of privatization and liberalization of the public sector – the current trend in Europe, the model of civil society and economic development, is quite the opposite. In order to maintain the level of a welfare state, it is imperative to increase the efficiency of the public sector and PPP often represents one of the means to accomplish this objective. The recent financial and economic crisis has shaken the thesis about the 'omnipotence of the free market' and strengthened the belief that certain goods should not be left to the free market due to solidarity or because they cannot be rationally provided by the free market. Therefore, PPP today does not generally represent the privatization of the public sector or the liberalization of the provision of public goods. In our view, the distinguishing feature of PPPs is that public sector *retains* an active role, either as the regulator or as the supervisor of the provision of public goods to end users.

Thus, even if one was to observe that gradual privatization and liberalization of the public sector were the primary motives for the initial implementation of PPP models in the 1980s – and PPPs were often used for such purposes – PPPs have now developed into a tool for a more efficient provision of public services by including the private sector into the equation, i.e., including private funds into the financing of public services and public infrastructure where public funds do not suffice.

We believe that implementing PPPs in developing and emerging economies should be perceived in the same manner – as a tool to establish a welfare state and society, and not as a tool that merely provides earnings to the private sector, which puts it right next to privatization in some arguments. If the governments around the globe follow this objective, the PPPs might become acceptable among citizens, and have a bright future in any economy. The success is up to the public sector, which must *retain* an active role in all the stages of the process.

People-Oriented PPP Strategy as a Prerequisite for Success

In this chapter, we discuss the importance of the motive to be followed when introducing PPPs in economies of individual

countries. The PPP implementation motive is an important issue from the perspective of political tendencies, as we have outlined in the previous section. Namely, the motive is one of the key elements for gaining the trust and support of citizens towards PPPs.[29] Without a positive public opinion on PPPs in general and related to specific projects, there can be no success in the implementation of PPPs.[30] In our view, this is one of the most important factors that determines whether the implementation of either PPP strategy or individual projects succeeds or fails.[31]

Globally, one can observe that the tendencies are shifting from the 'PPP model leading to privatization' to the 'People-First PPP Model'. The United Nations Economic Commission for Europe International PPP Centre of Excellence (UNECE ICoE) defines 'People-First Public–Private Partnerships' as partnerships that ensure that out of all stakeholders, 'people' are on the top. Its focus is on improving the quality of life of the communities, particularly those that are fighting poverty, by creating local and sustainable jobs, those that fight hunger and promote well-being, promote gender equality, access to water, energy, transport and education for all, and that promote social cohesion, justice and disavow all forms of discrimination based on race, ethnicity, creed and culture. The UNECE ICoE was established with the mission to promote People-first PPPs, which must expand in scale and speed, and spread with more people having access to better services at affordable prices (UNECE, 2017).

Additionally, in expert meetings, the concept of 'value for people' PPP is being increasingly substituting the concept of 'value for money' PPP. Although no tools to evaluate the 'value for people' PPP have yet been developed, and for now the notion is above all (just) a political statement, we can see the tendencies

[29]Cf. Hall (2010).

[30]As a good practice example, see Manila Water Company, Inc., which is the sole provider of water and wastewater services to more than six million people in the East Zone of Metro Manila. See the video of UNECE (2012).

[31]For an empirical study, see Boyer, Van Slyke, and Rogers (2016). The findings of the study imply that developing PPPs in politically volatile climates requires direct citizen feedback in respect to the design and implementation of projects that are typically negotiated between private partners and a government entity speaking on 'behalf' of the affected public. There are well-established public relations practices for PPPs, with a great deal of resources and attention paid to 'selling' projects to the public.

are slowly but steadily shifting into the direction that PPPs are to consider people-oriented aspects and not just monetary aspects and efficiency. The government motives for the implementation of PPPs are important, and they have to be people-oriented and sincere. Citizens can feel it.

However, 'people-oriented' motives for the implementation of PPPs are *per se* not enough if not properly communicated to the public. Governing structures have to be able to demonstrate to their citizens that they care for them and their everyday needs, and that they are using PPPs as a tool to meet their needs (Ferk, 2016a, 2016b; Mariue, 2014). The governing structures need to develop the required communication skills and adopt the efficient public relations (PR) communication plan in order to demonstrate the commitment for the mission.[32] Good PR strategy can significantly help in the implementation of this new approach in national economies. However, a communication plan without the true people-oriented PPP policy and commitment is bound to fail in the long run.

Confronting Top 10 Pros and Cons

After the development of a sincere motive by the government, adoption of a strategy for the implementation of a people-oriented PPP policy and communication of the policy to the public, the success largely depends on the approach to the implementation. Here, the competence, diligence and cooperation of public officials play a major role. The PPP projects can be successfully implemented, only if the public authorities perform the tasks and duties competently and diligently. The competency

[32]Cf., e.g., successful awareness campaign Race Against Waste in Ireland which resulted in increase in municipal waste recycling rate from 13% to an impressive 35%. Race Against Waste was widely recognized as a highly successful awareness campaign and won numerous awards. See RPS Ireland (2017). However, compare the findings of the study in respect of the PPP in household waste management as perceived by residents in south-west Nigeria, where the results show that most of the respondents were of the opinion that the PPP has not been able to improve household waste management services. The findings established by Ezebilo and Animasaun were that the PPP will be more effective and sustainable if the public sector could pay more attention to the performance monitoring and accountability (see Ezebilo & Animasaun, 2012).

is an essential prerequisite for acting diligently, and one cannot be competent without possessing the required knowledge. The skills can be gained gradually by following the 'learning by doing' approach.[33]

In this section, we present top 10 pros and cons for implementing PPPs in the developing and emerging economies with an objective to support the PPP development in those markets, particularly the development of the public policy, teaching, learning and practice of PPP implementation.

Before 10 years, we formulated (compiled) the criteria based on the literature, case studies and experience of developed economies which successfully used PPPs as one of the instruments for the provision of public services and public infrastructure.[34] The aim of formulating such criteria was to go beyond the usual approach of either defending or renouncing PPPs, and to answer the continuous challenge: before initiating a PPP, it is imperative to understand its main advantages and its weaknesses, which are to be addressed appropriately. We wished to answer the key questions and to compare the key considerations. Implementing various PPP projects in Slovenia, a small post-socialist state where PPPs are still at an early stage of development and where the government – despite the legislative framework which enables the implementation of PPPs – is not actively supporting the development of PPPs, we tested and slightly modified the initial criteria in numerous projects and they have proved to be very beneficial when PPP projects are planned, implemented or when they have to be explained and/or justified to the public and/or supervising authorities. Deriving from this experience in practice, we have come to realize that identifying these criteria is very relevant for the implementation of PPPs in all economies – developed, emerging or developing – but it is quintessential for PPP implementation in the economies that are at an early stage of PPP implementation. As developing and emerging economies are amongst those countries, these are the key countries, which can make the most out of recognizing those criteria. Therefore,

[33]Not to be neglected, there are funds available for training courses or travel to visit successful programmes in developed countries, and lack of skilled experts to do the (hard) work to help developing countries to prepare relevant and appropriate solutions is an issue which could be dealt with (see Delmon, 2016).

[34]The criteria were initially formulated by Ferk and the present article is partly based on Ferk's thesis (2013) and later published in Ferk (2014).

the analysis includes practical considerations and recommendations for the implementation of PPPs in the developing and emerging economies, regardless of the current stage of the implementation of the PPP policy.

These advantages and disadvantages are analysed with respect to 10 criteria, which are following the project cycle. Identifying these advantages and disadvantages is relevant for the implementation of PPP projects in any national economy – developed, emerging or developing, but it is quintessential and represents the basis for the implementation of PPPs in the economies that are in the early stages of implementing PPPs, developing and emerging economies being among them.

In the comparative academic and expert literature, one can rarely find a comprehensive and systematic overview of benefits and drawbacks of PPPs, whereby their comparison is even more uncommon. On the contrary, the authors usually defend or renounce PPPs. In the absence of an appropriate critical approach, their arguments generally seem inconclusive and are presented only to indulge a certain ideological point. The reason for such a unilateral treatment of PPPs can be found in the fact that PPP projects are largely politically motivated and that the general public often perceives them as a means of (disguised) privatization. PPPs and the issue of financing of public services, public infrastructure and the associated public debt – a feverishly and relentlessly discussed political subject – are also tightly intertwined. The second cause for such conduct is that it is indeed difficult to argue the advantages and disadvantages of PPPs as such, since it is manifested in so many various forms that these arguments depend on the form of a particular PPP. Thus, a much more appropriate analysis should individually address different concrete projects. Notwithstanding these limitations, comparison of the principal for-and-against arguments has added value. Such comparison enables a closer objective assessment of the PPPs as such in order to avoid the rule of thumb. The analysis includes practical considerations and recommendations for the implementation of PPPs in the developing and emerging economies, based on risks and challenges identified. Namely, prior to initiating PPPs, it is important to understand its main advantages which may prove beneficial in project implementation and even more so its weaknesses which must be addressed appropriately.

It should be noted that, for the purpose of this book, the broad definition of 'emerging and developing economies' covers the countries from distinct geographical locations, including

Asia, Africa, South America and Transition Economies from Europe, which are at different stages of PPP implementation.

If we start with one of the E7 countries, Russia, for example, we must be aware that concessions have been practised in the Russian Federation before the 1917 October revolution (Talapina, 2010). However, during communism, the industry was nationalized and PPPs were no longer applicable. The notion of PPPs appeared again at the beginning of the new millennium, and PPPs were launched after the enactment of Federal Law 21.07.2005 No. 115-FZ 'On Concessions', later amended. However, despite the government's efforts to create better conditions for the private sector to participate in infrastructure investments, the Russian Federation faces problems regarding the implementation of PPP projects due to its history.

Similar considerations apply for China, another E7 country that shifted from socialist-planned economics to market mechanisms at the beginning of the new millennium, when the concept of PPP was mentioned for the first time (Ho, 2006). In the past three years, many PPP projects have started upon the initiative of China's central government. However, the results are not encouraging due to lack of returns for investors and lack of legal protection for private partners (Li, 2016). Both China and Russia are struggling with PPP implementation because of their respective histories and significant state involvement in the economy.

In India, also an E7 economy, the PPP concept is known and used since the 19th century and is practised most widely from 2006. The country is one of the leading PPP markets with as many as 838 projects reaching financial closure since 1990. The participation of private sector is promoted in particular in providing high-priority infrastructure (PPP Knowledge Lab, 2015a).

Other Asian countries do not reach the Indian level of development of PPPs; the political risks are one of the reasons for such a situation. For example, Indonesia introduced the legal concept of PPPs in 2005 in pursuit of greater involvement of the private sector in infrastructure development. However, only few PPPs managed to break through preparation and transaction stages, and current legal and regulative PPP framework is still inadequate (Lin, 2014). Since the Indonesian government pursues the objective of becoming one of the 10 major economies by 2025 – PPPs projects playing a major role – further development of PPPs is expected (Roesly, 2015).

According to the African Development Bank Group, African countries lack the tradition of practising PPPs, and only during

the last decade have the PPPs been identified as a means to promote development. Despite their potential, PPPs in African countries currently face many constraints: undeveloped business environment, lack of knowledge to carry out PPP projects, lack of legal and regulatory framework, the reluctance of investors due to the expectations of assumption of major risks, small role of Africa in the global market and especially the underdeveloped infrastructure and financial markets.

In the early 2000s, the South American countries introduced a law on PPPs. Brazil has considerable experience with PPP projects – even during the global crisis, in 2009, Brazil continued with infrastructure investments through PPPs. Currently, Brazil has 751 active PPP projects and there are reports on several successful large-scale PPP projects. In Argentina, for example, the situation is somewhat different. Due to import restrictions, currency exchange and capital flow, the private sector is less involved in infrastructure investments. The number of total PPP projects reaching financial closure since 1990 is only 172 (PPP Knowledge Lab, 2015b, 2015c). However, Argentina recently abolished some of the restrictions that have had a negative impact on investments and started to promote PPP projects (Devereux, 2016).

The transition economies in Europe started to practise PPP projects only after the transition to market economy, and are also facing similar implementation problems as, e.g., Russia and China. Common past socialist-planned economics is the root of the problem. In Hungary, PPPs are not a simple issue since experts and citizens are divided in their opinion, and some of them perceive PPPs as a conspiracy of business interests. Recently, the Hungarian government decided to terminate 26 PPP agreements and to return the assets to public authorities (Péteri, 2016).

As illustrated above, the development of global PPP markets differs significantly. Countries also differ with respect to legislative and regulative frameworks and specific situations encountered in the implementation of PPP projects. However, the common objective of all developing and emerging economies is to introduce PPPs to a higher extent, and they are all faced with a question of why (not) and how (not) to implement PPPs.

Below, we present top 10 advantages and disadvantages for implementing PPPs in the developing and emerging economies: feasibility; planning; optimization; modernization and development;

financing; project delivery; project operation; supervision; user satisfaction and accounting issues.

1. Feasibility	
For	Against
Implementing a project as a PPP is more economically feasible than the classic public procurement, which is reflected either by smaller investment to achieve the same quality of services or gaining higher quality with the same investment.	Implementing a project in the form of a PPP is not more economically feasible than the classic public procurement, since it creates high costs of establishing the partnership and greater financing costs, which are generally higher than the costs of public borrowing. It is important to stress that a 'low' bidding price is commonly established by lowering the quality standard.
Better economy is achieved by using the following elements: – Transferring risk to the private partner, so that an individual risk is borne by the party that can manage it better and more effectively. – Defining the project content in relation to expected results and quality standard rather than with regard to the required investments and workload. – Establishing a long-term partnership that facilitates the implementation of the project given its total whole-life cost. – Designating the financing system that rewards and encourages the private	Additional often stated considerations: – Each risk borne by the private sector is reflected in a higher price to the user, whereby the private sector is prepared to bear the risks only to a certain point, when it decides that it is more economically feasible to withdraw from the project and leave the public partner to handle the costs (debt) incurred. – Good planning and detailed specifications allow the private partner to carefully define the required subject and its quality. – Long-term partnerships are unpredictable and unstable; therefore the public partners

(*Continued*)

1. Feasibility	
For	**Against**
partner to perform its duties in a quality manner. – Establishing competition amongst providers and market mechanisms in the realization phase. – Transferring knowledge, experiences and technologies from the private sector, which allows for a more effective management and consequential reduction of costs.	bear a disproportionately high risks resulting therefrom. – It is often difficult to define and control the expected results and quality standards in advance; therefore it is less risky to assess and monitor workload and other investments of the private partner. – In the area of implementing PPP projects, market mechanisms often fail, i.e., perform inadequately, and create local monopolies that have a negative impact on the economy of the public service and the provision of public goods. Generally, the competition is established only in the selection phase, while the users are given no alternatives in the implementation phase. – Normally, the private sector is motivated to transfer knowledge, experiences and technologies, but only up to the point which allows for optimization of the project's viability and profit maximization.

Behind the exposed arguments is the hidden one of the key issues of PPPs, i.e., risk sharing. Most authors agree that the transfer of the majority of the operational project risks from public to private partner is the defining element that separates PPPs

from other forms of public contracts, particularly contracts concluded through public procurement procedures.

It has to be noted that risk definition at the time of creation of the PPP is quite challenging, especially when considering the fact that these are usually legal long-term partnerships sometimes concluded for a period of 20, 30 or more years. The longer the time period, the more uncertain is the partnership, since it is difficult to foresee all possible circumstances and changes that might affect the implementation of the PPP contract. Realistic prognosis is essential. Many projects fail due to unrealistic prognoses, estimating high project revenues following the desire to implement the project. However, unrealistic (excessively optimistic) projections will jeopardize the partnership to the extent that it might fail. On the other hand, a project might provide high profits for the private partner, which might again jeopardize the project.[35] Accordingly, the public partners should retain the possibility to renegotiate projects. Whether the public partner considers such a long-term partnership as economical and successful depends mainly on division of risks between the partners, whereas it is also important to identify all possible project risks as precisely as possible and allocate them between partners rationally. The general rule being repeated at all occasions to be followed is that each risk should be allocated to the party best able to manage it. However, although frequently repeated, this general rule is still often neglected, leading to congestion of risks with one partner only and leading to unbalanced partnerships, which might not end up as a successful project. Additionally, even the most diligent partners are not able to foresee all possible risks that may arise in a project, since certain risks cannot be predicted in advance, e.g., risks linked to the development of science and technology, changes in social values, end-user habits, public opinion and other variables that the partners have no influence over. For this reason, it is crucial that the PPP contract sets out certain mechanisms and procedures to be used if and when certain changes occur. These mechanisms can represent the starting point for the allocation of certain risks, the roles of both partners, and the influence this might have on the provision of public goods. Each risk can be assessed in terms of costs and its impact on the project viability, and it is therefore

[35]See, for example, Telegraph News (2011).

important that the risk allocation is balanced to provide a stable, long-term PPP.

On the one hand, a trend can be identified that in PPPs private partners typically pursue their own legitimate business interest of maximizing profits, hence attempting to transfer as many risks and costs to the public sector. The private partners are prepared to provide public services and goods only in the manner and under the conditions specified by their respective PPP agreement. It is important to consider that the private partner often provides funding of the project, which raises the price of the provision of public goods, since the cost of the provision must also be included in the financing costs. On the other hand, the cases of unsuccessful PPPs show that the private sector is prepared to bear the costs of certain risks, but to a certain point. Once this critical limit is surpassed, it is more rational for the private partner to withdraw from the project and thus limit its losses. In such case, the costs incurred to the public partner are significantly higher, as it has to ensure smooth operation of public services while accepting the costs arising from remedying the project situation. For the above reasons, two elements are particularly important.

First, throughout the whole implementation of the PPP, the public partner must ensure to maintain effective control that enables it to react instantly when the PPP strays from the set path, and thus limit the potential damage that may arise. Therefore, it is crucial that the PPP contract clearly defines the instruments that allow the public partner to intervene in the PPP in order to protect the public interest and avoid consequences for both partners.

Second, the PPP contract must define, clearly and in advance, the conditions and consequences of early termination of the PPP, especially in terms of charges, damages, penalties, etc. to which each of the partners is entitled in such cases.

In this respect, one of the key prerequisites of successful PPP projects is that such projects are addressed by life cycling cost (LCC) analysis that can predict the total lifetime costs of a certain product, service or construction.[36] This makes it possible to adopt the most economically advantageous decision when faced with several possible solutions. Namely, the traditional approach to public procurement usually focuses on the investment phase

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[36]On life cycling cost analysis, see, for example, Guidelines (2005).

only (*capex*), often neglecting the maintenance and management phase (*opex*).

2. Planning	
For	Against
Participation of a private partner in the planning phase generally results in a more in-depth and detailed implementation of feasibility studies providing a solid economic foundation and strengthening the project's viability.	Within the planning phase, the public sector must also prepare the economy analysis for individual projects comparing various realization alternatives.

One of the key requirements for a successful transfer of knowledge, know-how and technologies from the private sector is the early inclusion of tenderers into the PPP formation process. It is also important that tenders are involved as early in the planning and design stage as possible. Namely, in early stages of the process, it is easier to achieve maximum optimization of the project at a minimum cost. This is especially important when seeking innovative and adapted solutions, or with more complex projects that require more effort to be invested into an optimal definition of the PPP subject. Accordingly, the selected tendering procedure must allow direct communication and coordination between the public partner and the suppliers with a view to defining the best possible solution for the public partner (e.g., negotiations, competitive dialogue).

Traditionally implemented public projects are characterized by the fact that the major part of the emphasis in the planning phase is focused on the investment phase and the costs arising from it, i.e., the costs arising from establishing the public infrastructure. On the other hand, less attention is paid to planning and assessment of the project's life cycle cost, i.e., the operational and maintenance phase. In this regard, the key advantage of PPP lies in a detailed analysis and planning of the total cost over the entire project life cycle. Therefore, it is essential to correctly assess project viability.

Usually, the payment mechanisms for PPP projects are developed in a manner that the payment is directly related to the

quality of the services provided by the contractually agreed-upon deadline. The planning phase is also important in terms of planning investments needed for the establishment of the public infrastructure necessary for the realization of a particular PPP project. Private investors are inherently much more flexible when defining project phases and adapting the scope of the established infrastructure to the actual needs of end users. To achieve this objective, the PPP projects aim to bring the amount of investments as close as possible to the estimation of necessary capacities of an individual infrastructure to achieve its optimal utilization; a high percentage of non-utilization has an extremely negative impact on PPP project viability, and can represent one of the main culprits for unsuccessful realization.

The specific issue of emerging economies in this respect is that the assessments that deal with the needs of end users tend to represent a difficulty. This is due to the lack of tradition concerning certain public goods, due to unreliable data, or because it is difficult to assess how the end users will respond to the planned infrastructure. Other common issues may include the purchasing power of the population, unreliability of payments, responsibility avoidance, prioritization, etc. These factors complicate the planning phase, especially if the analysts fail to include local specifics and the stage of market development in an individual country. Due to incorrect statistics or its misinterpretation, a PPP project may already fail in the planning phase.

3. Optimization	
For	Against
PPPs enable realization of a project by establishing a synergy between the public and the private parts of the project (e.g., lower building costs, common infrastructure, one contract for the whole project, one contract for all project phases).	The interweaving of public and private parts of the project causes blending and relocation of costs from the private to the public sectors and vice versa, leading to a situation where the public part of the project covers the costs of the private part.

The traditional public procurement procedure is characterized by the conclusion of separate contracts with separate providers for each project cycle stage. Thus, the public partners conclude separate contracts with designers, auditors, providers,

controllers, managers, maintenance suppliers, etc. PPP projects differ from the traditional approach in the manner that all obligations of a project cycle are covered by a single contract on PPP. This allows for optimization and synergy of various stages of the project cycle that become more closely connected and intertwined.

At times, PPP projects are divided into the public and the private part, whereby the public section is aimed at providing public goods and the private section is designed for commercial use. In this way, a more optimal use of the established infrastructure is ensured; excess capacity is offered to the market, which generates additional revenue, thus increasing the profitability of the project. However, the partners must clearly and precisely agree on their priorities to avoid situations of excessive commercialization of public infrastructure at the expense of the provision of public goods.

4. Development and Modernization	
For	Against
PPPs allow for a more extensive use of modern technologies and equipment, improving the quality of the project and/or lowering the maintenance and management costs.	Utilization of modern technologies is reflected mainly in higher profits of the private sector rather than lowering the cost for the public sectors and the users.

Most states include promoting development and innovation into their development strategies as one of the key elements of economic progress. One way to achieve this objective is by PPPs.

Here, the public sector generally follows two guidelines. First, a PPP should seek innovative solutions for the provision of public services and public infrastructure, i.e., to solve concrete issues of the public sector by implementing innovative approaches. Second, the introduction of innovative solutions and practise through model examples should promote a similar conduct of other actors in the market, i.e., to promote modern and innovative solutions in their early development stage, reinforcing the position in the market and increasing the possibilities for wider (commercial) use.

Modern society faces numerous challenges and the public sector lacks staff, know-how and financial resources to address these issues alone. Therefore, to some extent, the cooperation

between the public and the private sector is necessary. In so doing, the public sector can act as the controller and the promoter of social development, significantly contributing to the spirit of an innovative and creative environment.

The private sector is not prepared to share its innovative solutions without a guarantee that this will provide it with certain benefits. For this reason, it is also of key importance that the public sector manages the tendering procedure in such a way as to promote seeking innovative solutions and project optimizations. Here, in respect of tendering procedure, two important aspects are essential. First, during the tender procedure, the public partner must ensure adequate protection of business secrets and innovative solutions that the tenderers propose, thus maintaining their competitive advantage in the market and, second, the public partner must promote such innovative solutions by creating appropriate criteria for assessing final bids, thus motivating the tenderers to include innovative solutions into their final bids.

5. Financing	
For	Against
PPPs provide access to private sources of financing projects in public interest, establishing better conditions for a (faster) realization of a project which do not necessarily fall under public funding.	Financing costs of private sector borrowings are generally higher than the financing costs of public sector borrowings.

Public partners frequently choose the PPP model because they do not possess sufficient financial resources to implement a certain project. Hence, the financing obligation is generally borne by the private partners.[37]

Practice yields for various payment mechanisms,[38] yet the most frequently used models of PPP financing are direct user charging, direct financing by public partner (e.g., from the state

[37]For more on financing risks, see Smith, Merna, and Jobling (2006).
[38]Payment mechanisms are based mainly on availability, usage, quality standard. Cf., e.g., HM Treasury (2012) and Fox and Tott (1999).

budget or a special fond), and the mixed financing model when the deficit between the actual costs and the direct user payments is covered by the public partner in the form of compensation. Generally, public partners tend to favour the financing model where the service is financed by direct user charging, whereby the manner of setting the price is determined in advance and is often maximized. On the other hand, private partners prefer the direct financing by the public partner.

In principle, the financing costs of private sector borrowings are generally higher than the financing costs of public sector borrowings. This is due to the fact that interest rates of corporate bonds and commercial loans have in general incorporated higher default risk premium and liquidity premium compared to government bonds (Brigham & Ehrhardt, 2005). However, one must not forget the fact that the public sector is often limited by fiscal rules. Therefore, from the perspective of the public sector the question whether the PPP project is considered as a part of the public sector borrowing is essential.[39] This aspect often eases the decision of the public sector whether to realize the project in the form of a PPP or postpone the realization until sufficient public sources are available (in most cases – for indefinite period of time).

6. Project Delivery	
For	Against
PPPs provide faster realization of public projects, as the private sector is already motivated by the established financing system (e.g., payments from users of public infrastructure) to conclude the project as quickly as possible.	Shorter deadlines are often reflected in poor quality of the executed project.
Rationalization of planning, design, build and later management procedures due to less formalized and shorter decision-making procedures.	With proper project management, also the public sector can provide for the project implementation dynamics similar to those dictated by the private sector.

[39]See *infra ad* Argument 10 (Accounting Issues).

Within the scope of public procurement, the traditional model of providing public services and public infrastructure is based on technical specification, i.e., the project documentation prepared by a public body (public partner). Any shortcomings or errors within the submitted technical specifications (project documentation) result in annexes to the contracts and additional works and, consequently, extend the deadline for project implementation, since the errors were made by the public partner. At the same time, public partners seek to protect themselves from any unjustified delays caused by the private partner by means of contractual penalties, financial insurance for timely implementation of assumed responsibilities and other equivalent contractually defined instruments, thus compensating for the damage that might arise from delaying the schedule. However, it should be noted that such instruments have a limited effect.

On the one hand, the characterizing trait of the PPP projects is that the partnership is formed in such a way that the private partner identifies with its obligations and wishes to fulfil them in accordance with the agreed-upon schedule, since this also affects its Return on Investment schedule. Particularly, the first payment by the public partner is made only after the private partner begins to provide the public service or public goods. The fundamental principle of 'no service, no payment' cannot be compromised in instances where the contractor takes over the delivery of existing services and is paid accordingly. In such cases, alternative approaches can be used for the transitional period (HM Treasury, 2012). Therefore, the private partners are highly motivated that the time period between the start of the project and the start of the provision of public service is as short as possible, since the cash flow starts earlier and enables quicker recovery of the investment.

On the other hand, for the management of the projects within the public sector, not necessary the PPP projects, the following aspects are typical: strict application of statutory and regulatory provisions (the principle of legality) and formal decision-making procedures; formation of numerous project groups (various departments and technical services); strictly formal relationships among group members; rigid hierarchical structure of responsibility transfer and decision-making system; lengthy decision-making and consensus-building processes within the project group; allocation of tasks according to competences of individual members and partial involvement only within their

competence areas; complex coordination among the members of a project group (communication, harmonization of opinions, documentation, etc.); tendency to form collective responsibility within the project group, rather than individual responsibility borne by each member; dividing complex projects into subprojects; demanding project management performed by the project group leader, etc. Those traditionally present patterns in public administration can be overcome only if addressed explicitly. The most appropriate and widespread approach in this respect is the introduction of project management techniques into the public sector. This is especially important for the developing economies and some developing states do implement such approach.[40] In our view, however, far most effective approach to introduce changes in the public sector is by using change management tools and techniques.[41] Additional aspect to be taken into account when implementing PPPs into developing economies is that many of those projects might be high volume and therefore in many cases global. Therefore, the challenges related to multiculturalism must be addressed appropriately (Halverson & Aqeel Tirmizi, 2008; Ochienga & Price, 2010). By means of introducing modern approaches of work into the public sector of developing economies, this can result in the significant shortening of the decision-making processes and, consequently, project realization. Furthermore, active involvement and support of the private partner in the decision-making process can shorten and rationalize the decision-making process. Regarding the project dynamics and project implementation in PPP projects, it is crucial that both partners coordinate the decision-making process and that it is up to the public partner to make final decisions usually affecting the dynamics of the project implementation and thus even protracting the implementation.

7. Project Operation Dynamics

For	Against
In PPP projects, the operational phase is crucial as business models mostly predict buying services, not assets. With	The traditional model of providing infrastructure also includes the operational phase, whereby the fact whether the

[40]Cf., Abbasi and Al-Mharmah (2000).
[41]See, e.g., Cameron and Green (2015).

(*Continued*)

7. Project Operation Dynamics	
For	Against
advanced financial mechanisms used in PPP projects, the amount of payment is proportional to the quality of the service provided to end users by the private partner. In this context, it is important to establish mechanisms that allow objective assessments of quality via a prearranged method, e.g., objective and measurable indicators of achieved quality standards, end-user satisfaction, reliability of service provision, utilization of established infrastructure.	operator is governed by public or private law is not crucial for efficient and viable management. On the contrary, if the operator is a public entity, whose primary motive is something other than profit, this should be reflected in lower management costs for end users.

The knowledge, experience and efficiency of the private partner can often be assessed only in the operational phase. Therefore, the private partners assume the key risks of planning and implementation of technical measures, and the risk of management (operation) and maintenance.

The operational phase exposes the biggest differences between PPP projects and traditionally implemented projects. When the operators are motivated through financial models to operate rationally and efficiently, this indisputably represents a significant contribution to the efficiency of the entire project. The contractors from the private sector are in principle more focused on end-user satisfaction, which is even more pronounced in cases where the payment is based on a system of bonuses and penalties to reward/penalize operators based on measured end-user satisfaction. On the other hand, the public sector often relies on the fact that any loss arising from the project will in any case have to be borne by the public partner, and paid from the public budget, to ensure the seamless provision of public goods. Nevertheless, the payment mechanism (payment for services rendered) enables the public sector to offer users a better

accessibility to the public infrastructure in the operational phase compared to the access provided by limited public funding alone.

8. Supervision	
For	Against
The public partner retains a supervisory function over the project, thus eliminating internal conflicts that arise when the public partner is simultaneously the provider and the controller.	The public sector tends to fail to perform its duties in the supervisory (controlling) phase due to the shortage of staff, insufficient knowledge, work overload, etc., and even when discrepancies are discovered, effective sanctions at its disposal are limited.

Success of PPPs is heavily dependent on the public partner exercising suitable and effective control throughout the life of a contract (contract management).[42] Supervision must be periodical, constant and professional. In the event of any breach, the public partner must have sufficient contractual provisions at its disposal to take corrective actions and sanction the operator appropriately. Effective control demands that both partners agree on the entity conducting controls, whether this be the public partner alone, both partners, or a third, independent person/institution. Competent control is usually provided on the following three levels:

- systematic control that is performed by the *private partner* when organizing the public service provision (quality management);
- *public partner* control that includes planned and/or unannounced quality inspections, and becomes more frequent if any shortcomings are discovered in the course of public service provision;
- establishment of a system that enables the *public service users* to report any observed shortcomings.

[42]For more information, see, e.g., Carey and Dor (2004) and Turner (2004).

In order to protect public interest, the public partners generally have special administrative contractual clauses at their disposal;[43] these enable the implementation of unilateral measures in the public interest. Administrative contractual clauses allow the public partner to unilaterally intervene in the established PPP to protect public interest in accordance with the principle of proportionality in the event that the public interest changes in regard to the conclusion of the PPP contract or in the event that the circumstances affecting the protection of the defined public interest change.[44]

Administrative law provisions can be defined as provisions that derogate from the fundamental principle of contract law *pacta sunt servanda*, interfering with the contractual autonomy of the parties. This violates the principle of equality of the parties, as the public partner on grounds of public interest unilaterally imposes its will based on its authoritative nature. Hence, public partners have efficient tools for protecting the public interest in the event of discovered infringements.[45]

9. Satisfaction of Users	
For	Against
As public goods are provided by the private sector, the users are often treated as consumers; in other words, their comments and needs are considered to a greater extent leading to a higher user satisfaction.	Within the context of public goods, one cannot define the user as a ‘consumer’, since as per definition a consumer should have the possibility to choose the provider, while in the scope of the provision of public goods – mainly due to their specific nature – this is not possible. These are still ‘public goods’ that are just being provided by a

[43]As deriving from the French administrative law. A similar institute in common-law systems would be, for example, a *step-in*. In Standardization of PF2 Contracts, areas of the contract which may require special attention where volume-based payments are significant or where there are exceptionally high levels of third-party income are compensation events, qualifying change in law, authority step-in, authority change in service, force majeure, the setting of the threshold equity IRR in the refinancing clauses and the various different termination scenarios. See para 19.4.6.
[44]See Ferk, B. (2014).
[45]*Ibidem*.

(*Continued*)

9. Satisfaction of Users	
For	Against
	selected provider holding the local monopoly.

Consumer of public services and public infrastructure is not an 'ordinary' consumer.[46] Therefore, an (end-)user and a consumer should be regarded as different concepts. A consumer is free to choose a service provider or a supplier of goods from a number of operators in the market. This determines the price in the market and supply-and-demand mechanism. The user, on the other hand, especially the user of public goods and services, does not have the luxury of choice in most cases. The consumer is characterized by its autonomy of decision: the freedom to choose a specific supplier to acquire services from and whether or not to acquire the services in the first place. The user of public goods, however, is generally limited to a single provider who has been granted special or exclusive rights to provide certain public goods/services in a specific territory (local monopoly). A territory can have more than one provider and the user can choose between them, but this is rarely the case. User's autonomy can be further limited by special regulations, obliging the user to be a part of the public service provision system (e.g., public utilities).

If a public service provider is also an economic entity that otherwise acts in the market, it usually focuses on the needs and wishes of end users. Therefore, the providers in PPP projects frequently use similar approaches when providing public services, and in some cases even combine their market activities with the activities performed within the scope of a public service.

10. Accounting Issues	
For	Against
Projects realized within the context of PPP do not encumber public finances,	In practice, the PPP projects often represent the hidden face of public sector borrowing;[a]

[46]Some authors refer to 'differentiated consumer'. See Simmons, Powell, and Greener (2009). See also the works of other authors in this book to clarify the position of a 'consumer' of a public service.

(*Continued*)

10. Accounting Issues	
For	Against
since they are funded by private sources; thus, such projects promote lowering the public debt.	thus, if the accounting standards and fiscal rules were followed correctly and consistently, PPP projects should be included in public debt.

[a]See, e.g., Hall (2015).

When implementing PPPs, the accounting framework for PPP arrangements has to be considered and introduced properly.[47] In this respect, *IFRIC 12 – Service Concession Arrangements* (2006) has to be examined.[48] Introduction of IFRIC 12 clarified certain aspects existing in IASB literature and how to be applied to service concession arrangements.[49] However, IFRIC 12 does not address accounting for the government side of service concession arrangements. Therefore, the International Public Sector Accounting Standards Board (IPSASB) has in 2011 released *IPSAS 32 – Service Concession Arrangements: Grantor*, which seeks to address a lack of international guidance on how governments and other public sector entities should report their involvement in service concession arrangements, often used to build the infrastructure necessary to maintain and improve critical public services. IPSAS 32 creates symmetry with IFRIC 12 on relevant accounting issues (i.e., liabilities, revenues and expenses). IPSAS 32 provides for the recognition, measurement and disclosure of service concession assets and related liabilities, revenues and expenses by the grantor. The criteria in IFRIC 12 for determining whether the operator controlled the asset used in a service concession arrangement are also used in IPSAS 32 to assess whether the grantor controlled the asset. This approach minimizes the possibility that neither the operator nor the

[47]For further elaboration on the issue, see, e.g., Heald (2011) and Sladka (2007).
[48]It was issued by the International Accounting Standards Board (IASB) in November 2006. For more information, see Deloitte's IFRS Global Office (2011).
[49]For elaboration on conditions, see IFRIC 12 – Service Concession Arrangements. Part A, Part B.

grantor would recognize the service concession asset (IFRIC 12). Applying the identified international accounting standards creates safer accounting environment for PPPs in developing and emerging economies,[50] although many accounting-related issues can emerge when implementing PPPs even if those standards are introduced.[51]

Conclusion

The world needs to invest about 3.8% of GDP, or an average of $3.3 trillion a year, in the transportation, power, water and telecom systems and other infrastructure on which businesses and populations depend just to support expected rates of growth.[52]

The deepening of the infrastructure gap is a fact and the goals set could not be met using exclusively public sources. That is particularly true in the developing countries where the infrastructure gap is even deeper and where it is often more difficult to provide public funding sources. Irrespective of the fact whether one is an advocate of the PPP or an opponent to it, it has to be acknowledged that without the active involvement of the private capital the infrastructure gap could not be successfully bridged. A question whether to implement a public project either in the form of a PPP or using some other model is thus often just an apparent question, better transformed into the question of whether we want a particular public project to be implemented today and provide users with a certain standard of public infrastructure or a specific public good or the project will not be realized at all or it will be realized in the undefined future. Thus, 'planning' becomes primarily a question of whether we want development and progress, and the questions whether it can be afforded, under what kind of conditions and at what price.

The question of the advantages and disadvantages of PPP is to a certain extent an ideological question, because for the project to succeed it is not vital whether it is carried out in the form of a PPP or as a traditional model financed purely from public funds, but rather depends on the quality of its planning,

[50]Namely, they are not obligatory. Regarding this issue, see Zafred (2010).
[51]Cf. The European PPP Expertise Centre (2015).
[52]See Woetzel, Garemo, and Mischke (2016).

managing and implementing. Virtually every state has experienced public projects, implemented either in the form of a PPP or in the traditional form as a public procurement, which were a complete failure for the public sector or, on the other hand, were success stories. Thus, the dilemma between using and not using PPPs is not a proper question. The key question is how to find the most rational way to carry out a particular public project. A response to such question may well be that the most rational and efficient way to implement a specific project would be a PPP as well as using the form of a public procurement contract and only with public funds. The answer will depend on the specific features of a concrete project, the market situation, potential private partners, the know-how in the public sector and, ultimately, end-user needs and public attitudes towards private capital.

Throughout history, economic crises have proven to be the most convenient excuse to curtail welfare state rights, and a similar trend is present today. The widespread mantra that it is imperative to achieve savings in the public sector is easiest to implement by diminishing the quality and cut the availability of public goods; the public sector rarely undertakes the difficult task to rationalize expenditure and organization, or increase efficiency. A series of common arguments indicates that the public sector faces serious functional deficiencies. Some of the usual arguments include the following: it is difficult to set quality standards for public goods; it is difficult to measure the productivity of providers; the organizational structures are rigid and excessively hierarchic; the operators lack autonomy in their operations; changes bring the risk of failure; the system does not operate as a whole, but individual units are successful; bureaucracy is too complicated and creates unnecessary obstacles; decision-making and response time are too long and too formalized; consensual and collective decision-making prevail; contractors do not bear responsibility for their decisions/actions/inactivity; the lack of motivation and concentration; the lack of project management principles; the lack of competent experts; the regulatory framework is inadequate, etc. To eliminate these shortcomings requires to undertake a long and gradual approach that does not give fast results. Thus, the PPP is viewed as a legitimate alternative.

For the emerging and developing economies, PPPs represent one of the last possibilities to introduce and/or strengthen the standards of welfare state. There are only two options: we can either prepare for a significant reduction in the level of accessibility and/or quality of public goods, or we have to design a more

efficient way of providing them. Thus, PPPs have become a global necessity and to be honest, this is not the case only for the emerging and developing economies.

Larger systems, such as public sectors, have trouble adapting to new means of organization and change their approach relatively slowly, but here we need quick effects due to significant cost pressure. This leaves us with only one alternative solution: active participation of a significantly more dynamic and adaptable private sector, i.e., the introduction of modern business model of providing public goods. In this scenario, it is important to establish effective control mechanisms in correlation to the funding system. This should be one of the key tasks of the public sector to prevent any abuse of the PPPs that could lead to a disguised public sector privatization.

Especially in the developing economies, the public opinion is highly, not always wrongly, averse towards engaging the private sector in the implementation of public tasks. Such an attitude can be due to various factors – from historical development, traditionally strong role of the state in the implementation of certain public services and the provision of public goods directly or indirectly by the state to a lack of understanding of the concept of PPP and associating it with the privatization, and the distrust towards private operators and their poor public image. One has to be aware that public projects are always implemented for people as end users and that without their active involvement and their final satisfaction no public project whatsoever can be successful. Consequently, for all public projects, even more so for those in the form of a PPP, it is more important that a proper and transparent manner is used in their application and to include the public, correctly inform the public and to ensure a transparent control over the project. It is the only way to earn appropriate public confidence which is one of the key prerequisites for the success of a public project, especially if it is implemented in the form of a PPP and even more so if PPPs are being introduced in the developing and emerging economies which have little experience and high degree of distrust on this field.

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