

PRESENTATION



NEW APPROACHES TO INFRASTRUCTURE DEVELOPMENT: PUBLIC-PRIVATE PARTNERSHIPS (PPP) 2.0

by **Mark M. Moseley**, Principal, MMM Infra

NEW APPROACHES TO INFRASTRUCTURE DEVELOPMENT: PUBLIC-PRIVATE PARTNERSHIPS (PPP) 2.0

BY MARK M. MOSELEY

The latest installment of the World Bank's half-yearly reports on Private Participation in Infrastructure (the PPI Database Half Year (H1) Update 2023, [available here](#)) paints a depressing but familiar picture. Investment by the private sector in Emerging Market and Developing Economies (EDME) continues to 'flatline', at levels well below the heady metrics of 2014 and 2015.

And the malaise with Public-Private Partnerships (PPPs or P3s) is not confined to EDME countries – it extends as well to advanced economies. Even in Canada – which

has been a long-standing champion of P3 projects – enthusiasm seems to be waning. As discussed in a November 2023 paper by the University of Toronto's Munk School of Global Affairs and Public Policy, there is an evident loss of interest in PPPs, in both the public and private sectors:

At the turn of the 2020s, the narrative on PPPs shifted, along with public sentiment and project delivery practice...

Institutionally within government, the overwhelming preference for PPPs faded...

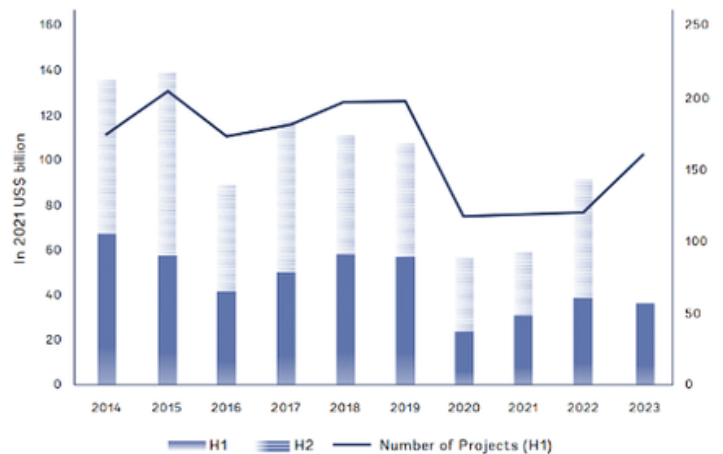
As governments sought to transfer significant construction cost risks to the private sector to achieve on time and on budget performance, these risks began materializing and becoming more costly than some firms could bear. ...

Receiving sufficient competition for PPP project calls for proposals became increasingly difficult, as fewer firms had the appetite or the financial ability to bid for the largest and most complex projects.

Yet there is – clearly – still a compelling need for private sector infrastructure investment, if we are to close the global 'infrastructure gap'. This is particularly true in lower-income countries, where we are falling well short of meeting the infrastructure commitments set out in the United Nations Sustainable Development Goals.

These discouraging realities were the subject of a presentation I gave at this year's annual Istanbul PPP Week conference, on 6 March 2024. The argument I advanced was that the public and private sector disaffection with PPPs is due, at least in part, to a perception that long-term PPP contracts are 'too inflexible' – *and unable to respond appropriately to an increasingly fast-changing world*. I also made the point that, *going forward, the need for adaptability in long term infrastructure contracts will become even more acute, due to the profound uncertainties being caused by climate change*.

Figure 1. Investment Commitments in Infrastructure Projects with Private Participation in Low and Mid-Income Countries, 2014–H1 2023



My suggested approach is to increase the flexibility of our PPP contracts, by taking a fresh look at the issues of risk sharing, dispute resolution and renegotiations. By taking such an approach, we can create “PPP 2.0 Contracts”, which more closely embody the concept of true partnerships.

PPP 2.0 Contracts will need to be more collaborative, which entails:

- a greater emphasis on risk sharing, as opposed to risk allocation
- a less adversarial approach to dispute resolution
- a more systematic approach to renegotiations
- a stronger commitment to partnership

In addition to PPP 2.0, there are a wide range of other possible contracting models. During my presentation in Istanbul, I discussed the following approaches:

- Refining the Existing PPP Model (i.e., PPP 2.0)
- Institutional Public-Private Partnerships
- Progressive Design-Build
- Alliance Contracting

Refining the Existing PPP Model (PPP 2.0)

This option consists in making targeted adjustments to conventional PPP contracts:

- risk sharing: e.g., adjustments allowed for cost increases in construction materials

- dispute resolution: use of Dispute Resolution Boards
- renegotiations: use of an expert panel to approve renegotiations designed to address unforeseen risks

Institutional PPPs

Various jurisdictions have experimented with arrangements whereby the Government Contracting Authority (GCA) is a minority shareholder in the PPP Project Company:

- the Wales Mutual Investment Model (MEM)
- France’s Société d’économie mixte à opération unique (SEMOP)
- Italy’s Sperimentazioni Gestionali legislation Company

Progressive Design Build Projects

In a Progressive Design Build project, the GCA selects a qualified design-build contractor and ‘progresses’ the design of the project towards a proposal that meets the GCA’s needs:

- the design-builder is retained by the Government Contracting Authority early in the life of the project – in some cases, before the design has been developed
- the design-builder is generally selected primarily on the basis of qualifications, and the design-builder’s final project cost/price and schedule commitment is not established as part of the selection process

- the design-builder delivers the project in two distinct phases, with (i) Phase One including budget level design development, preconstruction services and the negotiation of a firm contract price; and (ii) Phase Two including final design, construction and commissioning.

Alliance Contracting Model

In the Alliance Contracting model, the Government Contracting Authority and the contractor form a joint organization to plan and deliver the project collaboratively.

Key principles to drive collaboration in Alliance Contracting include:

- sharing information with an ‘open book premise’
- collective decision making
- apportioning risk and reward on a ‘pain share/gain share’ basis to align interests
- prohibiting legal actions between the parties other than under specific circumstances

Alliancing is a slower and more labour-intensive model of contracting, that is intended to deliver improved results through the fostering of meaningful collaborations.



I believe that, with some targeted refinements, we can and should be able to ‘rescue’ PPP contracting and make PPPs the preferred choice for the increased investment in infrastructure we desperately need. Recently, I have been asked by the International Federation of Consulting Engineers (FIDIC) to lead a Task Group charged with exploring this concept of PPP 2.0 contracting in greater detail, to determine what those ‘refinements’ might entail, in terms of specific contractual wording. **Suggestions are welcome!**

