



**MOSELEY
INFRASTRUCTURE
ADVISORY SERVICES**

Private Sector Participation in Infrastructure – Alternatives to Conventional Public-Private Partnerships

EBRD Webinar
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Why is there a Need to Re-examine the PPP Model

The level of PPP transactions is declining globally

But the need for quality PPPs is acute

- **the PPI Database shows an ongoing decline in EDME PPPs since 2012**
- **the UK has discontinued the use of PFI PPP**
- **major corporate entities (e.g. Skanska) have said they will no longer bid on PPPs)**

- **the infrastructure gap remains significant (the GI Hub's *Infrastructure Outlook* estimates that the gap will exceed USD 15 trillion by 2040)**
- **and private sector sources of capital (e.g. pension funds) continue to seek long-term investment opportunities**

Restoring Confidence in PPPs – Reforming Risk Allocation



The decline is due to many factors

Risk Allocation is at the heart of every PPP transaction

ADB Discussion Paper*

* available at
<https://www.adb.org/publications/restoring-confidence-public-private-partnerships>

- **governments believe that PPP are not delivering value for money**
- **the private sector believes that risks have become excessive and unpredictable**
- **PPP contracts reflect the 'risk matrix' developed for every project, identifying each conceivable risk and assigning it to either the public or private partner**
- **only selected risks are retained by the government – most are transferred to the private sector Project Company; a small number of risks are shared**
- **the concept of a 'more collaborative' approach was explored in a 2020 ADB Discussion Paper: *Restoring Confidence in Public-Private Partnerships***

Alternative Models for Private Investment in Infrastructure



Alternative models used in the construction and resource industries (predominantly in Australia and New Zealand)

- **Project Partnering**
 - a non-binding commitment to achieve a construction objective
 - attempts to achieve a different mindset between the parties

- **Alliance Contracting**
 - a legally binding agreement to share almost all risks
 - no litigation over contract disputes
 - importance of selecting highly trustworthy private sector partners

Alternative Models for Private Investment in Infrastructure (cont.)



**Other alternative
models
(predominantly used
in the US and the EU)**

- **Integrated Project Delivery**
 - **early involvement of all concerned parties (owners, contractors, subcontractors) to plan the project, using technologies such as Building Information Modelling (BIM) systems**
 - **no competitive bidding**

- **Competitive Dialogue**
 - **collaborative interactions between the government and private sector bidders during the competitive bidding process**
 - **a relatively complex and time-consuming procurement process**

Alternative Models for Private Investment in Infrastructure (cont.)



Other European and Latin American models

- **Economic Stability Clauses**
 - **contractual provisions providing for relief in the event of economic 'hardship', primarily used in civil law jurisdictions**
 - **administratively challenging to apply**

- **Regulatory Asset-Based Approach**
 - **the use of an economic regulator to monitor a private sector infrastructure provider on an ongoing basis, as is done for utility companies**
 - **requires a high degree of regulatory capacity**

Alternative Models for Private Investment in Infrastructure (cont.)



Unconventional PPP Models

- **Government Equity Participation Arrangements**
 - acquisition by the government of an equity stake in the Project Company
 - frequently used for PPPs in China, where the counterparty "Social Capital Investor" is often a State-Owned Enterprise
 - also used in Wales (the Mutual Investment Model program)
 - complex governance issues

- **Hybrid PPPs**
 - programs where the government finances and constructs the project, and then competitively awards an operations/maintenance concession
 - examples include the Philippines "Build, Build, Build" program, and India's "Toll Operate Transfer" initiative

Suggested Reforms



Five Recommendations

- **An incrementally Greater Focus on Risk Sharing**
 - **jointly dealing with risks of unanticipated events**
- **Using Dispute Boards on PPP Projects**
 - **Dispute Boards have proven to be effective in resolving – and avoiding – disputes**
- **Embracing the Principles of Partnering**
 - **encourage public and private partners to work together to proactively manage PPP contracts**
- **Building Governance Capacity**
 - **collaborative PPPs will require a high degree of governance in line ministries/fiscal authorities**
- **Working Together**
 - **MDB infra/private sector/governance/procurement units must be more ‘joined up’**



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