

In the public eye

Public-Private-Partnerships: why mastering PPP's could resolve infrastructure gaps.



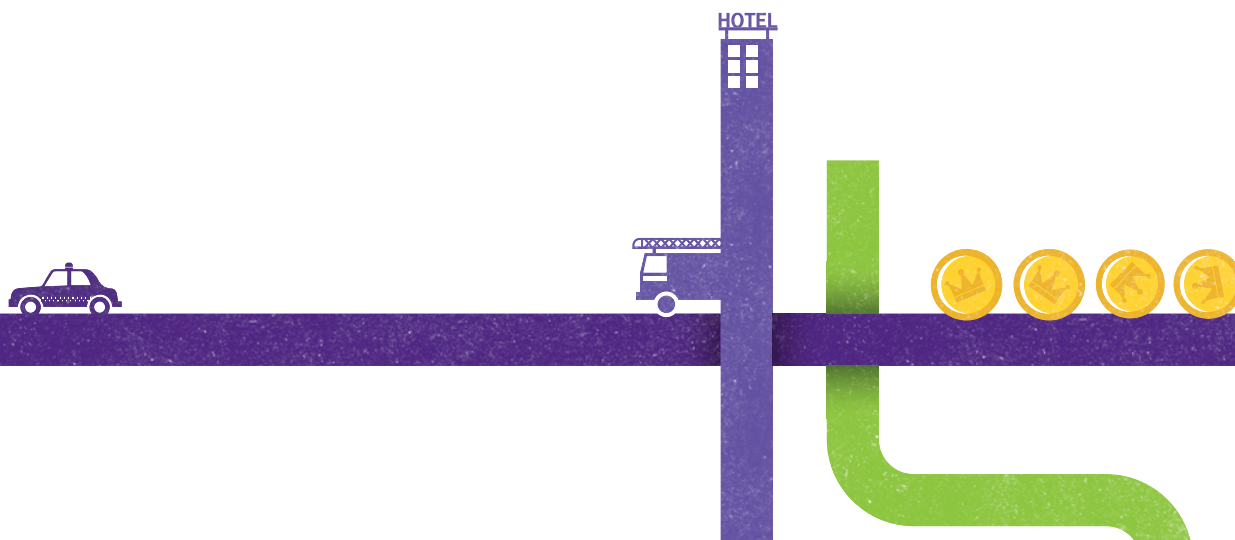
Public financial managers across the world believe that Public-Private-Partnerships (PPPs) are ideal investment vehicles to remedy their domestic infrastructure challenges. But these vehicles need skilled and knowledgeable managers to succeed.

According to the Global Financial Management Leaders Survey 2015 by Grant Thornton and International Consortium on Governmental Financial Management (ICGFM), nine out of ten respondents say their countries need substantial investment in this area to support economic expansion.

Our report draws on a survey of 278 PFM leaders from related areas of government and donor organisations, as well as directors from private companies and academia.

The survey was executed using in-person interview sessions, a multilingual online survey and a polling mechanism at the ICGFM annual international training conference. Participants represented over 40 countries across Europe, Africa, the Middle East, Asia Pacific and the Americas.

Infrastructure issues in emerging markets are well documented but developed countries including the United States; Germany and the United Kingdom all describe similar situations.



In most countries, all three are key government responsibilities. In other words, despite the ongoing need for austerity measures, governments must find money for projects central to their mission.

Meanwhile, many governments are looking for ways to increase incoming international investment. Worldwide, a clear majority of survey respondents told us their governments are focused (54%) or very focused (7%) on increasing outside investment.

For cash-strapped governments, finding ways to direct this investment towards necessary infrastructure is an obvious strategy.

As our report states, “some have little choice, those reliant on donor funding are often being pushed into Public Private Partnerships - they don't have the ability to go any other way.”

Only half of PPPs are considered successful

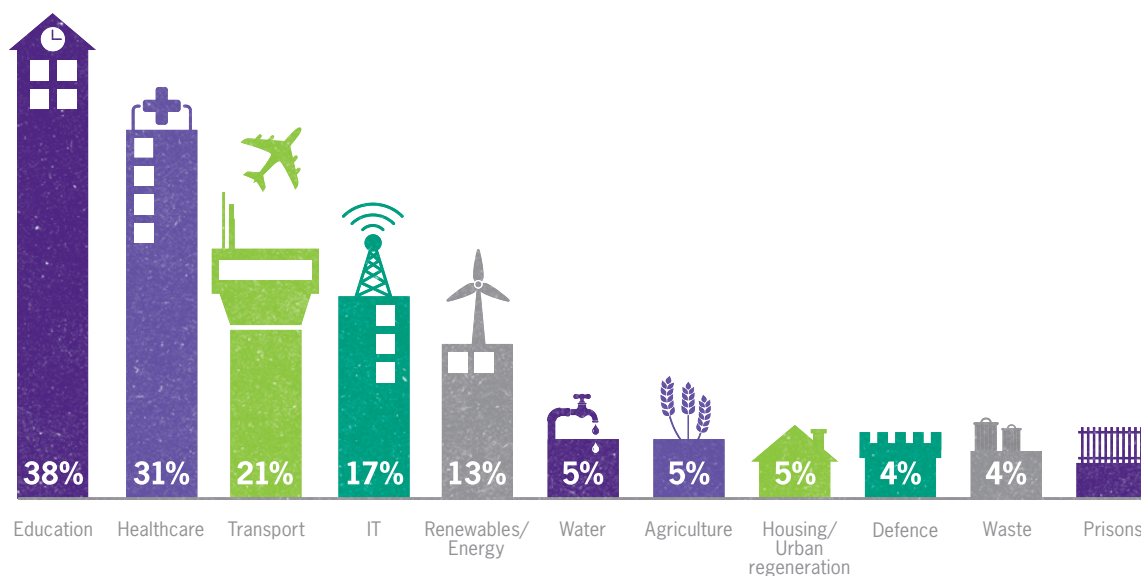
Given this context, it is not surprising that governments look to PPPs to square the infrastructure circle: 72% of respondents report that such arrangements are being used in their countries. The results, however, are decidedly mixed: only 53% of respondents who have used PPPs report success, 41% say PPPs have not been successful and the rest are unsure.

A major barrier to success is the inherent complexity of this type of arrangement. As one Canadian respondent put it, “some PPPs work; some do not. It depends on the capacity of the company, the nature of the contract and the oversight mechanism that protects public investment.” Getting this right takes substantial experience and skill among public financial managers.

The reports finds that the situation sometimes involves “a high-powered company, that has at its disposal excellent law firms and the world's savviest investment bankers, going up against governments that may not have the means and the skillset to really fully understand and assess the financial implications.”

The complexity of PPPs makes risk assessment difficult, and comments from our respondents suggest that a fair and effective allocation of risk is not adequately addressed. One told us that PPPs in his country are “often skewed in favour of private partners, largely due to corruption and a weak evaluation capacity on the part of government.” He added, in line with the analysis above, that “where the tilt favours government, private partners usually opt out before they are drowned.”

Which areas of infrastructure present the most critical need?



Source: Grant Thornton and ICGFM Global Financial Management Leaders Survey 2015

One of the few respondents who noted that her government had extensive experience with PPPs, also said their current level of success had been hard won through lessons from earlier failures. She reported that while risk is now generally balanced between parties, “this has come out of a number of historic projects where this was not the case and lessons have been learnt accordingly.”

PPPs appear intrinsically challenging

Experience helps make successful PPP arrangements, but that seems to be acquired only slowly. One of the most striking things about the results of this year’s questions about PPP is how little they differed from similar ones in 2011. Then, 61% reported using such arrangements to fund infrastructure, and of these, 46% said that the experience had been a success. The modest change between 2011 and 2015 may also reflect mixed attitudes about PPPs among public officials.

At the very least, there is limited consensus on how to measure their success. In the survey, we found several instances of divergent opinions on the success of the same country (these included Guyana, Nigeria, Philippines, South Africa, Uganda and the United States).

More generally, cultural resistance still exists in any number of countries. According to the report the use of PPPs seems to come “more out of necessity than acceptance of the possible benefits. It’s not the preferred path in most instances.”

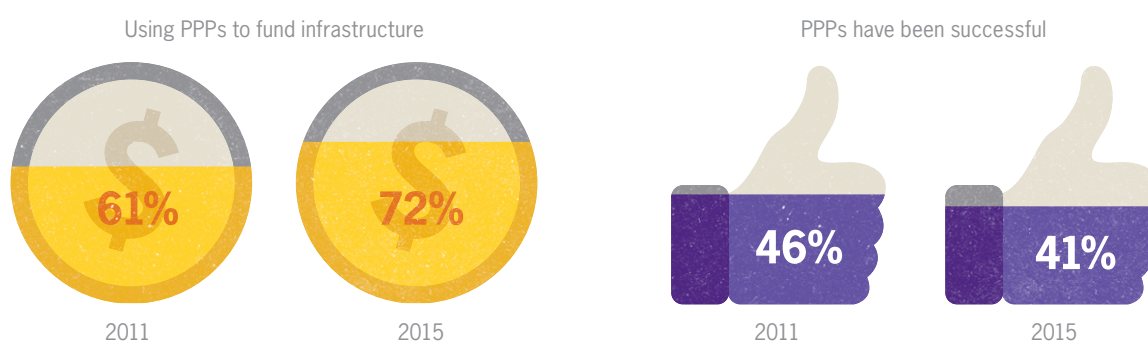
Until public finance managers develop the needed skills for PPP, and embrace its possibilities rather than accept it reluctantly, little is likely to change. However, public sensitivity is of course another factor, even when finance managers are eager to champion PPPs.

“The perception can be that a private sector provider now owns a piece of public property to make money from taxpayers,” said Grant Thornton and ICGFM in the report. “It comes down to the basic fact that people are suspicious about any situation where they pay taxes for something and then appear to be paying again, such as paying a toll on a freeway for example.”

Part of any successful PPP then, is being transparent and communicating the benefits and reasons to the public. For the full report visit:

http://www.icgfm.org/surveys-GrantThorntonAnnual/ICGFM-GTI-PFMSurveyReport12-2015_Final.pdf

Use of PPPs to fund infrastructure since 2011



Source: Grant Thornton and ICGFM Global Financial Management Leaders Survey 2015

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