

+ EVALUATION OF PUBLIC-PRIVATE PARTNERSHIPS IN INFRASTRUCTURE

Executive Summary



PPP INFRASTRUCTURE PROJECTS IN LAC, 2006-2015: OVERVIEW OF A DECADE



2014 INFRASCOPE RANKING

TYPE OF ENVIRONMENT FOR PPPS IN INFRASTRUCTURE

- DEVELOPED
- EMERGING
- NASCENT

Countries not ranked by Infrascope (Haiti, Belize, Guyana, and Suriname), and regional initiatives are included in the nascent category.

COUNTRY
 US\$ billion investment
 # PPP projects
 % of national GDP

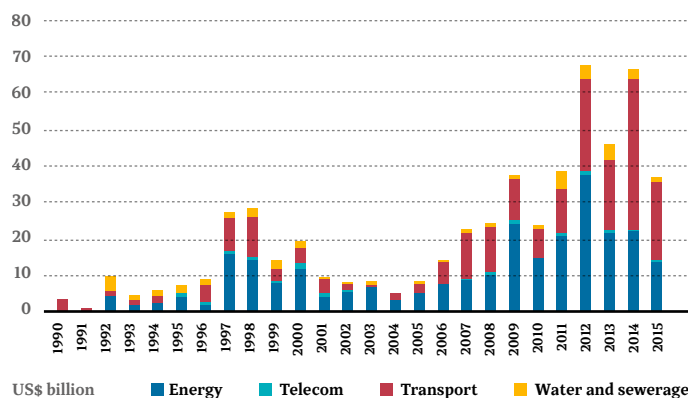
What is a PPP?

No single definition for public-private partnerships (PPP) is accepted internationally. They include a range of options between purely public and purely private projects. For this evaluation, we use the broad working definition in the PPP reference guide 2014: “A long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance.”

In the decade from 2006 to 2015, the Latin America and the Caribbean (LAC) region had investments of US\$361.3 billion in around 1,000 public-private partnerships (PPPs) infrastructure projects, mostly in energy and transport. They are highly concentrated in Brazil, followed at a distance by Mexico and Colombia, while Honduras leads in PPP investment relative to GDP.

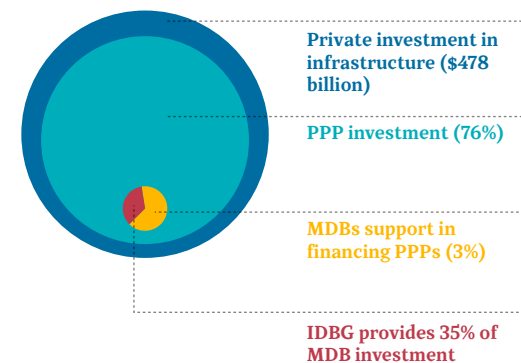
The significant infrastructure gaps in the region and the relevance of meeting infrastructure needs for development are well documented. And PPPs have become a tool that can help overcome some traditional problems associated with public provision and reduce these gaps.

LAC PPP investment in infrastructure by sector (1990-2015)



SOURCE: PPI DATABASE (2016)

PPPs, predominant way of supporting private infrastructure investment in LAC, 2006-2015



SOURCE: PPI DATABASE (2016)

However, [while potentially useful, PPPs also raise concerns](#). Infrastructure projects, typically large-scale and long-term, pose many risks – technical, construction, operating, financial, force majeure, regulatory/political, project default, environmental and social. PPPs thus require a strong analytical framework that could avoid extra costs and maximize value to all parties.

Also, PPPs are not easy fixes for governments seeking to scale up infrastructure investment. They require institutional developments that take time to consolidate before delivering their potential, and, if done poorly, can result in higher costs and less and worse services. Moreover, it is important to increase transparency to mitigate corruption risk.

Multilateral Development Banks (MDBs) can play an important role in supporting the development of suitable environments to attract private investment, in providing independent project preparation assistance, and in helping close financing gaps. They have a potential comparative advantage in supporting PPPs given their ability to engage directly with both public and private sectors.

So, how can the [Inter-American Development Bank Group \(IDB Group\)](#) and other MDBs strengthen their role and effectiveness when dealing with PPPs?

The evaluation: Reviewing 10-years of IDB Group experience

The evaluation by the Office of Evaluation and Oversight (OVE) reviews IDB Group's support to infrastructure PPPs at [three levels: enabling environment, project preparation, and financing, and also the experience of other MDBs](#). It comes at a unique time for IDB Group, given the recent merge-out of private sector operations into the Inter-American Investment Corporation (IIC) and the change in strategic focus of the Multilateral Investment Fund (MIF).

The evaluation analyzes case studies of projects in five countries: [Brazil, Dominican Republic, Guyana, Peru](#) and [Uruguay](#). These case studies are representative of the two most important sectors – energy and transport – and included all IDB Group PPP operations in the most important sub-sectors (wind and hydropower; roads and urban transport, respectively) approved between 2009 and 2012. OVE also conducted a case study on [Colombia](#), focusing on enabling environment operations.

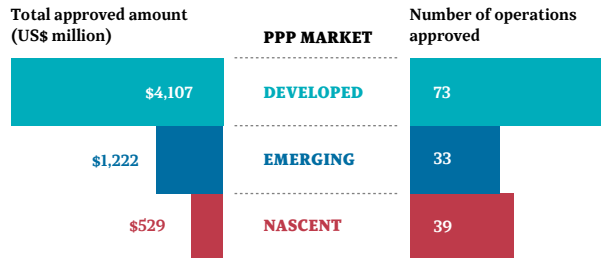
IDB Group: LAC's largest PPP-financier among MDBs

During [2006-2015 IDB Group approved 145 PPP operations for US\\$5.8 billion](#), focusing on financing PPP projects (mostly in energy and transport), with only limited support for project preparation. The IDB Group portfolio has only recently begun to include less traditional sectors, such as education and health.

Also, IDB (unlike MIF) has focused on improving the enabling environment in countries with developed PPP capacity. IDB Group did not provide substantial support to some nascent countries where it financed or planned to finance PPP projects, such as Guyana, Belize, and Ecuador, and it often acted without a comprehensive integrated strategy. As MIF reduces its PPP work go-

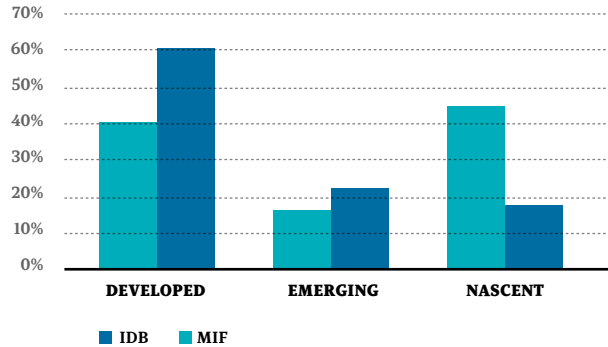
ing forward in line with its business plan, it is unclear whether and how the rest of the IDB Group will pick up the enabling environment work in the more challenging settings.

IDB Group's support to infrastructure by type of environment



SOURCE: INTERNAL IDBG DATA

IDB and MIF support for enabling environment



SOURCE: OVE

PPP activity has increased in recent years, as PPP environments have improved – but they still vary greatly across the region. The rate of contract renegotiations has been high, and while there are valid reasons, many were a consequence of poor project preparation.

The IDB Group provided 35% of total MDB project financing in the region, though its support was relatively small compared to the LAC PPP market. IDB Group was more active in financing, while the World Bank Group was more active in enabling environment and project preparation. Most of IDB Group's support (over 70% of the total portfolio) for both enabling environment and financing was approved for the five countries with the most developed PPP capacity.

Findings: Is IDB Group making PPPs work?

1. ACTIVITIES AND RESULTS

..... **Objectives related to the enabling environment were mostly achieved, but projects focusing on financing had difficulties in countries with weak enabling environments.** Basic conditions for successfully delivering infrastructure services through PPPs were absent in half of the projects in the sample. Yet the approach was not to consistently first build prerequisites – IDB Group often only engaged at financial closure of the projects.

..... **When different parts of IDB Group acted independently, inefficiencies were likely to increase, and the opportunity to provide overarching solutions was missed.** Additionally, value for money analyses were not routinely conducted in early decision-making processes, which led to the pursuit of objectives that did not maximize IDB Group's potential to add value.

2. ADDED VALUE AND SUSTAINABILITY

- **IDB Group added value in a few countries (most notably Colombia and Uruguay) by having long-term engagements with governments, being flexible and adaptable to changes in context, and working in new areas with high potential.** Providing a recognized “seal of approval” early in project preparation and applying IDB Group environmental and social safeguard standards (often more rigorous than national ones) are other areas where IDB Group can add value.
- **The longer-term sustainability of IDBG support was often uncertain.** Improving disclosure practices in PPP projects is key to increasing transparency, mitigating corruption risk, and raising public awareness about the benefits. Additionally, although long-term local currency financing is essential for PPP sustainability, in many LAC countries capital markets are concentrated, small, and not very deep. PPP projects sometimes also have difficulty managing environmental and social risks, which are often high for this kind of project.

3. INTERNAL ORGANIZATION

- **Practically all MDBs have redesigned their approaches towards PPPs, some of them drawing on evaluations of their experience.** The main lessons include the need for a clear and focused PPP strategy; a critical mass of PPP skills and expertise; a coordinated and collaborative approach across all parts of the institution involved, with an appropriate incentive framework; and an adequate set of PPP-related instruments (including knowledge, policy, and financing).
- **IDB Group can learn from the experiences of other MDBs.** Though several strategy documents mention their importance, IDB Group does not yet have a clear overarching PPP strategy, and country strategies have not adequately guided the Group’s PPP activities. Staff working on PPPs is dispersed, without a focal point that could help in making decisions and sharing lessons, and initiatives have been undertaken on a case-by-case basis. Also, while some important knowledge products have been developed, PPP knowledge is not optimally managed and IDB Group has not used project preparation facilities to their full potential.

Recommendations: Three levels of action

1. STRATEGIC LEVEL

- **Identify and assess the potential demand for PPPs through specific country diagnostics.** They should include analyses of at least: infrastructure needs at the sector level, the PPP environment, the fiscal constraints and risks, and the type of support governments are looking for.
- **Define priorities for intervention.** This would include a general framework considering in which countries and sectors support is needed, what type of support is needed, and defining priorities.

2. ORGANIZATIONAL STRUCTURE AND SKILLS

- **Establish a PPP focal point in the IDB Group structure.** It needs to have sufficient authority and resources to foster collaboration and pull together all relevant parts of the IDB Group (public and private) to deliver seamless PPP services to clients, including investments and advice.
- **Assess the current PPP capacities in the organization,** taking an inventory of the skills IDB Group currently has, identifying what is missing, and working on attracting and retaining needed skills.
- **Reform incentives.** Staff is currently rewarded mainly according to the volume booked in their window. This is particularly problematic since it is easier to book a sovereign-guaranteed operation than a PPP. The incentives should move from IDB Group approval volumes to the amounts it can mobilize from private investors, and there should be incentives for collaboration.

3. OPERATIONAL LEVEL

- **Analyze infrastructure projects in the pipeline and advise countries** on the most suitable delivery model. Ideally this analysis and advice should be independent of the sector that will be originating the operation. This assessment needs to also include governance issues, as well as environmental and social issues.
- **Explore the use and development of new financial and advisory products** tailored to countries' specific needs. Options to explore include, for example, local currency financing, advisory services, specific instruments to support subnational governments, and project preparation facilities.
- **Strengthen the results framework for PPP operations.** IDB Group should routinely review the value for money, the quantity and quality of services delivered, the costs for taxpayers and users, and the likely sustainability of the arrangements. Regarding environmental and social issues, it will be important to assess whether critical objectives have been met.
- **Design a specific PPP knowledge strategy.** IDB Group should systematically capture and document the results and lessons learned of PPP operations through an improved system for knowledge management, recognizing that confidentiality issues could make this learning process more challenging.
- **Systematically incorporate lessons of experience** from IDB Group's own operations and from other MDBs in the design and implementation of new PPPs operations. The central unit should play a critical role in engaging with other MDBs and identifying lessons and best practices.

↓ [Download the publication at www.iadb.org/ove/PPP](http://www.iadb.org/ove/PPP)

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