POSITION PAPER PUBLIC-PRIVATE PARTNERSHIPS

The document intends to represent the institutional position of CICA, the International Confederation of Contractors' Associations, related to the use of Public-Private Partnerships (PPPs)'s contractual schemes for the provision of infrastructure goods and services. CICA highlights the social and economic importance of Infrastructure, refers to the need to reduce the worldwide increasing infrastructure gap, and points PPPs as a useful tool to handle a part of this task. The document refers to the PPP schemes' concrete advantages when applied to suitable projects, their characteristics and their success conditions. Finally, the document expresses the institutional role CICA is dedicated to play regarding PPPs.

Infrastructure

Contractual Schemes

Distinctive Features of PPP Contracts

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CICA
3 rue de Berri
75008 Paris
+33 1 44 13 37 13

www.cica.net

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Infrastructure

The infrastructure gap grows all over the world.

Infrastructure is an unavoidable prerequisite for the Quality of Life and for the Productivity of a country. It is the best tool in the Fight against Poverty and in favor of the Compliance with the United Nations Sustainable Development Goals.

It requires significant investment, but it has a long useful life, so **it is reasonable to finance it**, with long term finance. In traditional Public Work contracts, paid with current treasury funds, the present generation pays for equipment that will be used by several future generations.

PPPs- Contractual Schemes for Private Participation

States, seeking sources of funding with little or no support from their budgets, are waiting for the mobilization of private investors and lenders. But it is of upmost importance to make the difference between “Funding” and “Financing”. “Financing” describes who raises the loans and provides equity for the realization of the infrastructure. “Funding” defines who will reimburse the loans and repay the equity and the investor remuneration (somebody has to pay anyhow because there is no free lunch). There are only two types of fund providers: the tax-payer and the end user. One or the other should fund the project or a mixed contribution can be established.

Therefore, referring to a Project Financing, PPPs can be a way to deliver infrastructure projects, **complementing public resources**, always scarce, with contributions from the private sector.

If the Project is paid by users, **the financial private contribution alleviates public accounts**, allowing **reallocating the released public resources to social action**, health, education, security. If the Project is paid by the tax payers, the alleviation is temporary because there is no charge during the construction period and the repayment is spread over some years of the operational period.

Besides, private infrastructure investment provides a better knowledge and management of the public debt, provided all the PPP projects are recorded properly in a public **specific** accounting.
This has to be done in a systematic way including the list of projects and their potential future liabilities. In some countries the law establishes a limit to them.

As said, in PPPs, the private investment can be recovered - totally or partially - by users payment, which is more efficient than through taxes, because it saves the opportunity cost of public funds. But, even when the payment is made by the State, once the project service is available, at the time of payment, the State and / or the community is already receiving the project benefits.

PPPs should not be chosen because of government indebtedness reasons. Their advantage is that **private participation improves efficiency** in the resources allocation and reduces the project total cost, considering its **entire life cycle**. **The unification in the private partner of the responsibilities of Design (D), Construction (C), Operation (O) and Maintenance (M) is a powerful incentive** in that sense. Regardless of the contractual form chosen, the private partner is, at each stage, under the control of the public authorities. In most cases financing is also a private contribution, but it may remain on the State shoulders, if sovereign financing is available and cheaper. But, even in financing, the private contribution may be more efficient if a flexible refinancing is possible.

When a public financing for a project is not immediately available, the anticipated fiscal return generated by PPPs to governments (corporate taxes, VAT, property taxes…) is also an important advantage of these schemes.

However, **PPP is not a universal panacea**. Its impact on the total investment in infrastructure is around **20% in Latin America, around 10 % in Europe**. Its incidence may be somewhat higher in countries that are new to the system, as they may have accumulated a stock of proposed projects, appropriate for PPP schemes.

Distinctive Features

PPPs are long-term, complex contracts. They have high initial transaction costs. The tender process takes more time than alternative contracting methods for partial tasks (D; C; O & M). But the project availability usually comes earlier and in a more certain time.

As said, they are usually characterized by private participation in financing. Today is an opportune time because of the enormous mass of financial resources available in the world. In particular, the infrastructure assets must be attractive for investors who need a stable income stream over the medium to long term and protection against future inflation, since the incomes of the project are linked to the real economy of each future moment.

For a rapid development, it is required that the country receiving the investment has: a) a clear and stable institutional and regulatory framework; b) ability to manage the process in Public Agencies and Companies; and c) a deep financial market.

But there is already a lot of experience in the world about PPPs and lessons have been learned from successes and failures. CICA is cooperating since 2009, bringing the experience of its Member Federations, in contact with Multilateral Development Banks, United Nations, with the contributions of experts from all over the world.

Success Conditions

There must be a “pipeline”, a continuous flow of resilient projects, well prepared in the technical area, well-structured in the economic-financial area, to reduce risks from the outset, so that they can be quickly "investable". A substantial contribution in that sense will come from platforms such as SOURCE or other equivalent ones for project preparation.

PPP contracts must be structured in a standard way, so that they can be securitized. This would generate an Asset Class acceptable for non-specialized Pension Funds, Insurance Companies, Sovereign Wealth Funds, Investment Funds and individual Investors.

It is required that the risks be assigned in a balanced way, to the party that can best assume them, e.g. the receiving State must assume the risk of the currency exchange rate, since it depends essentially on its policies.

There must be fast and impartial contractual Dispute Resolution systems, such as the Technical Panels that accompany the project since its beginning, and the Arbitration Courts, regulated by international rules.

For developing countries, there must be an intelligent scheme for investor guarantees. Examples of success are the TIFIA program in the United States for subnational Agencies, or the subsidiary, third degree, guarantee of the World Bank in the Renewable Energy Plan of Argentina.

Smaller, modular projects at the subnational levels, suitable for Medium Infrastructure Enterprises should be encouraged and facilitated. The urban agglomerates grow all over the world and the infrastructure gap is even deeper there than at national level. Besides, the local stakeholders (governments, companies, investors) know better the feasibility of medium size or modular local projects. Mobilizing the local or regional resources could generate an important mass of projects referred to urban development, lightning, public transport, connectivity and housing that would contribute to the infrastructure gap closing. To make this market possible for the Medium Infrastructure Enterprises, two policies should be emphasized: a strong capacity building in local Government agencies and companies and a standardized, “securitizable” financing and contracting model, in order to reduce the projects initial transaction costs.

CICA's role regarding PPPs for infrastructure investment

Advocate for the system before Governments, Multilateral Organizations and markets.

Disseminate current regulatory frameworks, successful models and lessons learned to all stakeholders in the sector.

Contribute to the **strengthening of the capacity** to manage projects in Public Agencies and private companies.

www.cica.net

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Confederation of International Contractors' Associations

3, rue de Berri,

Paris 75008,

France