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THE WORLD EXPERIENCE IN PUBLIC PRIVATE PARTNERSHIP PROJECTS

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Annotation

The public-private partnership (PPP) model has been increasingly popular in recent decades as a mechanism to support infrastructure related investment activity. PPPs creates many advantages for countries such as releasing from financial burden of high cost infrastructure investments, bringing high quality of public service and increasing efficiency of operations through transfer of private sector expertise.

Keywords: Financial, infrastructure, private infrastructure, public service.

Introduction

PPP projects now have been in use for more than three decades. Several studies (Kokkaew et al., 2015; Miranda & Renneboog, 2014; Cruz & Marques, 2011; Nickson & Vargas, 2002) analyze the experience of countries in general or experiences of countries in a specific sector i.e. transportation, water supply or waste water treatment, health, agriculture and broad band industry. Figure 2 presents number of public and private infrastructure projects by sectors in the world.

In particular, transportation, energy and other public service related investments seem to undergo to PPP (World Bank, 2018). In this section, the PPP experiences of countries which include different industries are reviewed.

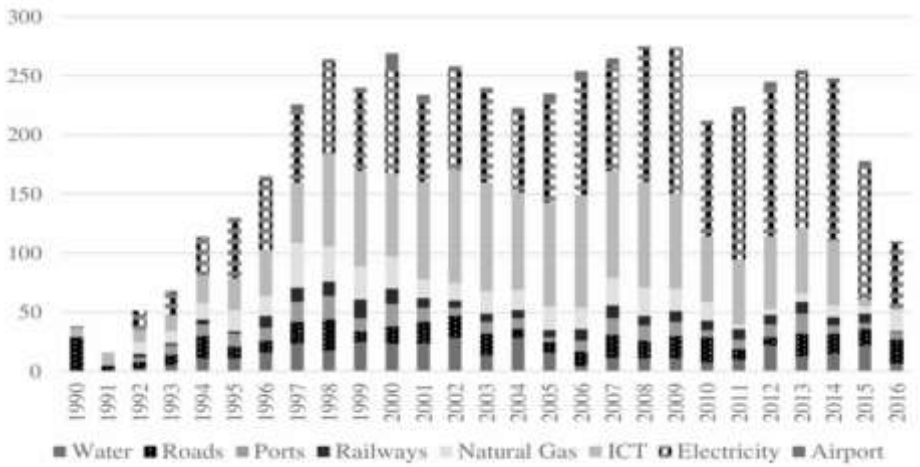

Figure 1. Number of public and private infrastructure projects by sectors in the world

Transportation Projects

The model of PPP has been actively used in constructing transport infrastructure such as metro, motorways, toll roads, tunnels and bridges (de Jong et al., 2010; Deloitte, 2007). In general, the scales of transport infrastructures which are conducted through PPP projects are quite large. Zhang and Cohen (2012) find that transportation investments constitute a substantial part of the PPP projects which consist around 40 percent of total number and 75 percent of total value of all projects. Apart from the cost of construction, maintenance of these facilities which brings a considerable amount of cost may impel governments to resort to PPP models.

Hungary M1/M5 road is a well-known PPP project which is used in Central and Eastern Europe for

constructing toll motorways. M1 section of the project was opened in 1996, thus in terms of construction and finance, the project was successful since it was completed almost on time. This project is an example of how the demand risk is transferred to the private sector at a very high level (PPIAF, 2018). The reasons of unwillingness of the public sector can be explained that the public sector assumes the level of traffic might be lower than expected. It should be noted that in exchange of assuming the traffic risk, private sector demanded to be able to set the toll rate by themselves. EBRD was also an investor which helped to finance the project. But, it turned out that demand forecasts were too optimistic. Traffic level was less than half of the forecasts. Toll rates were too high which led to court cases. Thus, while M1 line was fully nationalized, M5 line was partly nationalized at the end. A key lesson from this case is that forecasts for revenue and costs should be well studied. Otherwise, the whole system can go to bankrupt. Several papers investigated the determinants of success of PPP model in transportation industry. For example, the study by Zhang and Cohen (2012) analyzed the impact of stability of partnership in public and private actors on success of projects. Their analysis was based on optimal taxation, mechanism design and game theory areas from economics literature. The study showed that smart contract design which could disable both parties, yet particularly governments, to change their decisions arbitrarily over time would affect the success of PPP. A strong contract may force PPP actors continue their commitments as they promised before the implementation. A good example in relation to changing decisions at the mid or final stages of the PPP project can be the taxation. While the policy maker might declare that certain investments would not be taxed at the beginning of the project, tax exemption decision might be changed by the policy maker after the investor completed the project. The investor cannot reverse the investment; thus it may find more optimal to accept tax payment over the return than demolishing the project. Therefore, authors emphasize the importance of governments' commitment to contracts for the stability and success of PPPs.

In a similar vein, Kokkaew et al. (2015) analyze the PPP process in Thailand and their study focuses on Don Muang Toll Road project as a case. This project is considered as a failure for PPP model in the literature. The project started in 1989 and a private company received the

rights to build the concession for 25 years. The financial agreement included the terms which conditioned that 20 percent of the finance should come from equity and the rest would be financed in local currency. But once the contract was signed, the government changed the rules of the game on the way of asking the foreign investor to provide half of the loans in foreign currency. As a result of this change, the private party should assume that the exchange rate risk as revenue would be calculated in local currency, yet the debt would be calculated in foreign currency. Besides, in the construction process there have been delays due to the actions of government in approving the design and acquiring some parts of the land. Moreover, against the agreement on closure of two of the four lines that were parallel to the Don Muang toll road, the government did not fulfill its commitment. Eventually, the project was completed but the level of traffic was much lower than the forecasts. Government gave permission to increase the number of tolls and also accepted some of the debt. The importance of making strong contracts that protect the rights of both parties can be considered as a key lesson.

Conclusion

PPPs are acknowledged by the governments particularly with heavy debt burdens, as magical solutions for the shortcomings of traditional infrastructure provision (Hammami et al., 2006). However, PPPs should not be considered as a panacea to address the infrastructure needs of countries (Guasch, Laffont & Straub, 2008; Casady et al., 2020). As presented in the previous chapters, there are failure cases as well as success cases in PPP implementations. From this point of view, PPP projects can be deemed as a Ponzi scheme on the way of financing certain needs of current world with suspicious earnings of future.

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