

MONEY TALKS

DEBUNKING THE MYTH OF THE "QUICK AND EASY" PPP

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This article will give you everything you need to know to achieve quick and easy PPP results, with zero preparation, very little effort, and no need to provide money or guarantees...

Don't you just wish? Everyone who has ever worked on a public-private partnership yearns for this sort of foolproof, one-size-fits-all solution. But there's no fast-forward to success when it comes to PPPs. They can bring great benefits, but this outcome requires time, effort, and investment.

And yet, governments everywhere seek the holy grail and insist on following the many PPP pied pipers. This merits a quick explanation. According to legend, the pied piper of Hamelin wore a multi-colored ("pied") cloak and played a pipe. He was hired by the village to lead the rats out of town, which he did, but when the villagers did not pay his fee he led the children out of town, never to be seen again. Governments also seem to want to take the easy route, trying to get it cheap and fast. This never works.

There are many examples of bad practices that emerge from the desire to get it done quickly. These cases may show poor decision-making, but these models are not inherently

flawed. There is no reason not to ask for construction and financing together in the same tender process; there is no reason that government funding/export credit agencies should not be an integral part of project procurement.

What fails, inevitably, is the effort to shortcut good preparation and robust competition. Government needs to take time to work out what it wants, when it wants it, what (if anything) it is willing to pay for or guarantee, and how different project risks are going to be managed and allocated. Once the government decides on its project and determines its role, a competitive process should be used to select the private partner.

Here's why: competition helps to get the best deal and demonstrates that the project is awarded properly and transparently, with opportunities offered to the best investors. It takes time. It requires funding and the relentless efforts of experienced staff. But the results are clear—there is no substitute for doing it right.

WHAT NOT TO DO: THREE TYPICAL SCENARIOS

A company or foreign government shows up at the relevant ministry with promises to solve the officials' most pressing problems quickly, easily, with no effort. The fact that no other government in the world has found this easy solution does not seem to bother these officials, who are relieved to have something to believe in. This generally results in years of discussions, negotiations, signed memorandums of understanding, and ribbon cutting—but no progress. Instead of results, there are delays, mounting costs, and frustration for everyone involved.

An interesting twist was achieved by an East African country. The process started with a European government offering financing if a company of its nationality were to be selected to build the infrastructure. Officials issued a limited tender, exclusive to consortia originating in that particular country. This is a big no-no for OECD member nations. However, despite protestations from the other European governments, the project is under construction, and results are visible. At least this case involved some competition, and actual infrastructure development—a much better outcome than other such efforts, but with room for many questions to be asked.

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The government issues a tender, asking bidders to design, build, and finance infrastructure. There is little detail, and almost no analysis or effort behind the tender. The private sector is expected to do everything, including to guess what the government wants now and for the next 30 years. Based on experience, bidders are not convinced this is a workable proposition. For example, during discussions over three years ago when an East African project was brought to market in this way, the government rejected using a competitively procured PPP as it “takes too long.” Despite the project's status as one of the more exciting in Africa, and the commercial dynamism of the country in question, the response was poor, with only one bidder—and despite promises, it turned out that bidder did not actually have the financing. Government officials did not uncover that bit of intel until after they had signed an agreement with the bidder. Over three years later, there is no real construction in sight.