Lessons Learned
Utilization of the Public-Private Partnership Mechanism

AfDB Utilization of Public-Private Partnership Mechanisms

Context
Public-private partnerships (PPPs) bring together the expertise of both the public and private sectors, allowing each sector to do what it does best in order to deliver projects and services in the most efficient manner. Within the context of the African Development Bank (AfDB, or the Bank), PPPs refer to a form of financing mechanism where the public and private sectors agree to jointly establish and/or operate a public investment project or activity. PPPs play an increasingly important role in the developing world. Provision of infrastructure now tops the agendas of most donors and multilateral development banks (MDBs), which have come to recognise the importance of these mechanisms in meeting future needs for infrastructure, particularly in this era of growing scarcity of public resources. PPPs are being employed in a range of infrastructure projects because of the benefits of bringing in private sector resources and expertise, and the associated potential benefits from increases in efficiency, and accountability, while linking payment streams to private contractors that deliver services. Appreciating value for money, MDBs are eager to get involved in PPP operations as lenders to private sector providers in the PPP arrangement.

The Bank’s emphasis on PPPs became more prominent under the Private Sector Development Strategy, 2004–2007 (AfDB, 2004), as well as the Strategy Update, 2008–2012 (AfDB 2008). Both strategic documents highlighted the need to build “competitive physical and social infrastructures” via “…the promotion of Public Private Partnerships (PPPs) by developing broader financing options, supporting training for business skills and brokering PPPs for basic services...” Realizing that it could employ the PPP mechanism directly, the Bank stated in its Strategy Update (AfDB, 2008) that addressing weaknesses of PPP framework conditions was a focal area:

The Bank is uniquely positioned to address the infrastructure needs of regional member countries by combining resources from both public and private windows (including concessional resources) as well as providing technical assistance and capacity building in support of PPPs.
Despite the potential gains to be derived from PPPs at various levels, their successful realization is a significant challenge in itself. Many issues affect the design, implementation, and realization of PPP outcomes for developing countries. These include market access, competition, legislative and regulatory issues, and public and private sector capacity issues.

Both theoretical and empirical literature emphasize these challenges. Among these, five literature streams are worth mentioning.

1. Public management literature, which has focused on issues of contractual relationships, their management and costs.
2. Public governance perspective on PPPs, which highlights the importance of the governance of relationships within networks and the importance of the interrelationship between the political and social context.
3. Literature that focuses on the nature of organizational and collaboration issues.
4. Community development literature that explores PPPs within the context of the needs of the local community as well as PPP impact on the self-learning capacity of local communities (Oakley 1991).
5. Empirical literature that seeks to describe the process and impact of PPPs on the provision of local services and the development of the local community (Taylor 1997).

All former literature streams represent cornerstones on their own. But these were developed in isolation. Because they are not interconnected, the extent to which lessons can be learned across all these approaches is limited, as is the extent to which new syntheses can be developed. Another limitation is that the primary focus is the country level. Notwithstanding these challenges, there is no question that the PPP is a major innovation for developing countries, and that evaluation is positioned to make a significant contribution to identifying best practices.

**Key Lessons Learned**

Partnerships may be strategic, covering the broad aims of organizations and dealing with long-term matters, or project/program-driven, involving only specific programmes or projects. The following section presents lessons for both contexts.
**Project preparation**

- Strong and detailed feasibility studies for PPPs at the initial preparation stages are a key success factor for minimizing future deviations from financial, economic, and social projections with respect to project outcomes.

**Organization**

- Tapping into local knowledge and presence helps in capitalizing on local expertise and resources.

- Good monitoring and the development of standardized methods for gathering information on the performance of organizations and programs throughout the life cycle of a program/project is important. It helps overcome challenges related to development effectiveness, ex-post evaluation, and such issues as drawing unsubstantiated conclusions about the state of larger systems from lower-level indicators, of organizations from program-level indicators, of programs from individual-level indicators. In short, focusing on a few individual cases obscures the big picture.

**Participation and commitment**

- Sustained commitment of all relevant Regional Member Countries (RMCs) and government agencies can be ensured by reconfirming contract- and policy-related issues in case of changes in key counterparts. Over time, individuals and organizations may change their views, priorities, or roles – and such changes can alter the nature of the partnership. Therefore, merely satisfying the conditions that facilitate the adoption and implementation of PPPs is insufficient for achieving efficiency, effectiveness, and sustainability. Research on public policies has clearly demonstrated that good implementation does not necessarily lead to the realization of policy objectives, and may even bring about unintended or unwanted consequences (e.g. Pressman and Wildavsky 1973).

- RMCs should also enhance private sector participation, a process that can be assisted by “unbundling” Water and Sanitation Sector (WSS) services to enable phased entry of the private sector. Because WSS services tend to be monopolistic, a strong and healthy regulatory framework is required to prevent excessive prices and poor service delivery.

- Community and civic groups must be empowered to participate in the full range of water management services, and the widespread adoption of community participation/demand-responsive approaches promoted. However, the heterogeneous nature and capacity of communities must be recognized until participatory planning is institutionalized.

- Cost recovery, with prices sensitive to low-income users, must be achieved so as to guarantee continued service delivery. Lifeline tariffs, regulation of small private vendor resale prices, and an incremental introduction of full cost pricing to vulnerable communities are required. An integrated approach that enhances economic activities in rural areas needs to be encouraged to make water supply and sanitation schemes more viable and sustainable.
Recommendations

Policy and strategy

- In developing and implementing a strategic approach to private sector development, the Bank should make use of PPPs to simultaneously improve the business climate; upgrade the private sector through capacity building, training, and advice; and provide financial services. In so doing, the Bank will be in a better position to synergize the demands for competitiveness and diversification of economies.

- Policy should define how to encourage PPPs, building on the comparative advantages of each sector.

- The Bank should act as a catalyst by promoting PPPs that can mobilize greater resources and improve service delivery. Good strategic planning should aim at maximizing contribution to the local economy and upper-level outcomes such as regional integration, tourism development, and urban mobility.

- Given that PPPs are typically oriented towards financial issues, governments and donors should ensure that wider societal targets are not undermined in partnerships. Effective and efficient PPPs should rely on common goals – while the private partner acquires a sense of social responsibility, the public actor develops a sense of managerial culture.

- Replication of successful PPP models from other regional settings should fully take into account local characteristics and conditions. Even the so-called “good practices” within a country or a region cannot be directly transferred to other countries because factors that have an impact on the adoption and implementation of PPPs within the domains of politics, economics, administration, and the legal system substantially vary across countries and regions.

- PPP projects should be complemented by the Bank’s policy work, technical know-how, and post-transaction support. In order to take full advantage of physical infrastructure, especially in developing countries, it is necessary to support the development of “soft infrastructure” that aims to improve human capital, namely, attitudes, knowledge, and soft skills (Figure 1).

Project preparation

- The Bank should undertake feasibility studies aimed at exploring opportunities to effectively engage in private sector financing.

- To avoid risky investments, the Bank should ensure that all financial, infrastructural, legal, and other institutional prerequisites are in place prior to providing project support.

- In the design of water and sanitation projects, the Bank should consider including more PPPs, supported by effective competition between operators and an effective regulatory system.

- Non-lending assistance needs to be invigorated and enhanced to further improve the enabling environment for PPPs, thus paving the way for private sector financing of infrastructure projects, particularly those with an economic advantage in the regional spread.
Internal organization

- The Bank should facilitate the delegation of management systems for managing water and sanitation infrastructure to private operators to strengthen their capacity.

Participation and commitment

- Both the Bank and national governments should ensure a higher level of involvement of the private sector in PPPs.
- African governments should speed up the establishment of the legal and institutional frameworks of concessions and adopt clear strategies for the development of PPPs.

Conclusions

To ensure that future PPP operations provide the maximum added value for all stakeholders – RMCs and private sector partners alike – each partner’s comparative advantage must be leveraged. The Bank’s agenda needs to ensure that the PPP response is pursued in a strategic manner, and grounded on solid country and sector diagnostics. Lessons learned and recommendations should feed back into improving the strategy and partnership framework in PPPs, particularly when a decision point has to be reached to continue, to modify, or to bring the partnership to a close.

Figure 1: PPP linkages to the real economy through physical and human capital

- Physical capital
  - Hard infrastructure
    - Roads
    - Railways
    - Energy
  - Market access
- Human capital
  - Non lending assistance
  - Attitudes, knowledge, skills, talent
  - Soft infrastructure
    - Health
    - Education etc.
  - Access to social services
- Equitable access to resources and infrastructure & fair distribution of economic and social development
- Economic Competitiveness
- Sustainable development
Methodology

This edition of IDEV’s Lessons Learned series features information drawn from the Evaluation Results Database, which covers the period 2001–2012. The information was extracted from 11 documents of 5 different types, featuring 11 countries and 6 sectors.¹

Lessons and recommendations were drawn from the Evaluation Results Database through a key word search using public-private partnerships, public-private, and PPP. These key words were classified along different dimensions until a coherent pattern emerged that allowed the development of a structured analysis, which provided the basis for interpreting the information at a more aggregate level.

The process used to produce lessons and recommendations comprises three main stages: collecting the project/program information, verifying applicability, and storage in a database. A post-facto approach was used, requiring a thorough examination of relevant documentation of projects/programs after they were concluded. While resource-intensive, this approach offers the benefit of bringing together an extensive analysis of operations, allowing both shortcomings and successes of different projects/programs to be determined. Domain and subject matter experts were involved in coordinating and conducting reviews to determine whether or not a lesson is indeed a lesson as well as the extent of its relevance. This process also served to verify and validate the accuracy and applicability of the lessons incorporated, while conforming to the OECD-DAC criteria for definitions and thematic classifications. The storage of lessons has led to the creation of an electronic relational database for sharing and dissemination, allowing users to search lessons by key words and themes through a friendly interface.

The recommendations production process followed a pattern similar to that of the Lessons Learned.

References


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Authors
Elsa de Morais Sarmento
Khaled Samir Hussein

Publications Coordinator
Felicia Avwontom

idev.afdb.org