Why PPPs have Emerged

Common Justifications for PPP programs

To attract private sector investment and "expand the fiscal space"

In developing and transition economies, government budgets can only meet a fraction of the community's infrastructure needs. PPPs (particularly in sectors where user charging is possible) can be used to deliver additional infrastructure without calling on government budgets.

To drive efficiency (PPPs can "deliver value for money")

For some projects, there is an expectation that PPP delivery offers opportunities for private sector efficiencies and hence better value for money than traditional infrastructure procurement.

To drive sectoral reform

A reform program that includes PPP provides an opportunity to reconsider the assignment of sector roles to remove any potential conflicts and to consider a private entity as a possible sector participant.

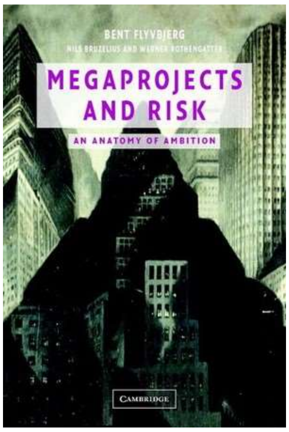
Better management of risk

Governments worldwide struggle to properly assess and manage risk in major projects.

Bent Flyvbjerg, a leading researcher in this area, has proposed that four instruments of accountability can remedy this:

1. Transparency
2. Performance specifications
3. An explicit regulatory regime
4. Risk capital.

PPPs are, for some projects, a means of implementing these instruments of accountability. PPPs can provide:



1. Transparency, by forcing governments to consider, budget for and account for the costs and benefits of the infrastructure over the long term.
2. Performance specifications, as a fundamental feature of a PPP is a specification that sets out the outputs required from the infrastructure.
3. An explicit regulatory regime, through a clear contract that links performance to revenue.
4. Risk capital, in the form of private sector capital that is "at risk" in respect of project performance.