

An Independent Evaluation of ADB Support for

## Public-Private Partnerships in Infrastructure Development

*Although ADB supported a number of successful PPP transactions, this has not substantially increased the level of PPP activity overall in the region for a number of reasons including unaddressed deficiencies in countries' overall investment environment, lack of institutional capacity, and the long time frame required for implementing underlying infrastructure and public sector reforms. ADB assistance was most effective when it was focused, was part of a long-term engagement, and integrated with sector reform initiatives that were supported by all relevant stakeholders.*

Team Leader: Henrike Feig  
Email: [evaluation@adb.org](mailto:evaluation@adb.org)

### Contact Us

Independent Evaluation Department  
Asian Development Bank  
6 ADB Avenue, Mandaluyong City  
1550 Metro Manila, Philippines  
Tel +63 2 632 4100  
Fax +63 2 636 2161  
Email: [evaluation@adb.org](mailto:evaluation@adb.org)  
[www.adb.org/evaluation](http://www.adb.org/evaluation)

*Learning Curves* is a handy, two-page quick reference designed to feed findings and recommendations from evaluations to a broader range of clients.

Public-private partnerships (PPPs) have been gaining recognition in many developing member countries as an important means of mobilizing private sector capital and expertise for infrastructure investments and service provision. The special evaluation study assesses the support provided by the Asian Development Bank (ADB) for the development of the basic regulatory, policy, and institutional frameworks for PPPs, as well as advisory services and financial support for PPP transactions in the power, transport and water sectors. The study uses a broad definition of PPPs ranging from service contracts to build-operate-transfer (BOT) transactions—essentially all modalities that assume some form of risk sharing between public and private entities with the aim of delivering a public service.

### Key Findings

ADB support for PPPs in infrastructure development was rated *successful* overall. Nevertheless, there are areas for improvement in both, public sector and private sector operations, as implied by lower performance ratings for PPP-related assistance in infrastructure sectors outside power and roads, technical assistance for the preparation of specific PPP projects, and earlier PPP project development facilities and financial intermediation loans that met with little demand as they did not address impediments to private sector participation in infrastructure. While ADB support for the establishment of initial policy and legal PPP frameworks was generally successful, more efforts are needed to help with their implementation and address remaining weaknesses in the enabling environment. The sustainability and impact of public sector support was reduced by a lack of adequate capacity development support and changes in political commitment to reforms. The strategic positioning of Private Sector Operations Department (PSOD) operations can be further strengthened through better coordination with public sector operations and proactive identification of PPP opportunities in line with overall country partnership strategy objectives.

ADB support for PPP has not substantially increased actual PPP transactions in most developing member countries (DMCs) for a number of reasons, such as unaddressed deficiencies in countries' overall investment environment, lack of institutional capacity, and the long time frame required for implementing underlying infrastructure and public sector reforms. While PSOD projects have performed to a satisfactory level, their impact on the creation of further PPP projects has been limited in DMCs that did not institutionalize demonstrated best practices. ADB assistance was most effective when it was focused, part of a long-term engagement, and integrated with sector reform initiatives that were supported by all relevant stakeholders. Sustained political will is the ultimate determinant of PPP success.



Public-private partnerships are an important means of mobilizing private sector capital and expertise for infrastructure investments and service provision.

Initially promoted standard build-operate-transfer modalities have proved useful in mobilizing additional investment funds for power generation and bulk water supply schemes, but have not helped address underlying sector issues affecting demand for their output.

Some infrastructure sectors have been more conducive to private sector participation and PPP than others. The power sector has received significantly more private investment than the transport or water sectors, which is reflected in the sector composition of ADB's PPP assistance. This is due to a range of reasons, including better potential for cost-recovery, higher political commitment due to the sector's importance for economic growth, lower levels of stakeholder resistance to private sector participation, greater institutional capacity, more progress with sector unbundling and utility restructuring, the centralized nature of decision-making and funding, and the availability of established PPP procurement modalities. Nevertheless, this does not mean that PPP in other sectors is without prospects. With appropriate modalities, support for capacity development, and political commitment to sector reforms, PPPs have proven to be feasible in other sectors as well.

## Lessons

- PPPs are not a universal solution to underlying sector investment and performance problems. The respective costs and benefits associated with traditional public sector procurement and the use of PPP modalities have to be clearly established through public-comparator analysis and value-for-money analysis.
- PPP development requires sustained policy dialogue and support for the development of suitable legal, regulatory, and institutional frameworks and assistance in the development of PPP pathfinder projects. Private sector participation is not a substitute for reform or government effort. On the contrary, many PPP modalities require prior sector restructuring and tariff reforms to be effective. The use of PPPs on a larger scale requires substantial government capacity for project identification and development, and the regulation and monitoring of PPP contracts and their fiscal impact. Support for policy reforms, capacity development, and pilot transactions can often proceed in parallel. Hands-on experience gained in developing and negotiating PPP pilot projects can serve as a valuable input for the development of PPP policy frameworks. A decision on whether to support overall or sector-based institutional and legal frameworks for PPP should take country conditions into consideration. The feasibility of PPPs in countries where public services have been devolved to subnational and local governments has to be carefully assessed, as past efforts in this area have been less successful due to the lack of institutional capacity, economies of scale, and funds.
- PPP modalities have to be carefully chosen to address identified sector development needs. Overall system efficiencies have to be considered in network-dependent infrastructure, particularly in the water sector. Development of road PPPs usually requires the government to assume demand risks and/or provide financial support, as it is usually difficult to charge tariffs that cover costs. Risk sharing structures need to be perceived as fair and manageable.

## Feedback

The study was completed in September 2009. ADB Management agreed with the report findings and recommendations. The Chair's Summary of the Development Effectiveness Committee (DEC) welcomed management assurance to draw up a PPP corporate strategy along with a corporate business plan on PPP, which is reflected in the CPSs. The DEC urged closer coordination between regional departments and PSOD. The DEC saw merit in quantifying the benefits of PPP, wherever possible, in terms of public resources saved, and using related indicators in the development results framework.

## Recommendations

- *To operationalize Strategy 2020, changes are required in ADB's support for PPP development, such as (i) stronger linkages between PPP support and other ADB sector operations; (ii) improved assistance for project development, new PPP modalities and related capacity development; and (iii) greater involvement in the transport and water sectors.*
- *Support for PPP project development and related in-country capacity will be crucial for the success of future programs. Substantial assistance will have to be provided for (i) sector development planning that adequately considers the role of the private sector in infrastructure development; (ii) value-for-money analysis; (iii) adequate (pre) feasibility studies, land acquisition, and social and environmental assessments; (iv) appropriate risk-sharing arrangements between public and private sector partners; (v) the delivery and management of government PPP support, and the monitoring of fiscal implications; and (vi) advocacy and outreach programs.*

### QUICK LINKS

**Special Evaluation Study on ADB Assistance for Public-Private Partnerships in Infrastructure Development (Main Report)**

[www.adb.org/Documents/SES/REG/SES-OTH-2009-31/default.asp](http://www.adb.org/Documents/SES/REG/SES-OTH-2009-31/default.asp)

**ADB Management Response**

[www.adb.org/Documents/SES/REG/SES-OTH-2009-31/SES-PPP-MR.pdf](http://www.adb.org/Documents/SES/REG/SES-OTH-2009-31/SES-PPP-MR.pdf)

**Chair's Summary of the Development Effectiveness Committee (DEC)**

[www.adb.org/Documents/SES/REG/SES-OTH-2009-31/SES-PPP-DEC-Chair-Summary.pdf](http://www.adb.org/Documents/SES/REG/SES-OTH-2009-31/SES-PPP-DEC-Chair-Summary.pdf)

**Watch the Video Clip**

[www.youtube.com/watch?v=h8pRux52KDU](http://www.youtube.com/watch?v=h8pRux52KDU)