Benefits and Challenges of Public-Private Partnerships

The International Center for Promotion of Enterprises (ICPE) and the Knowledge Economy Network (KEN) are co-organizing the international conference on Benefits and Challenges of Public-Private Partnerships for Improving Energy Efficiency, to be held in Ljubljana, Slovenia on the 24th of October 2012. All current and future members of KEN are invited to join us at the event, the full programme is available [here](#). Below are draft recommendations targeting international, national and local policymakers, and stakeholders. As PPP remains an important subject for KEN and often underestimated, we would appreciate your thoughts and experiences in this domain. We thank you in advance for your contribution, and will inform you about the outcome of the forthcoming debate.

The numbers at the end of each recommendation refer to one of three categories of addressees: 1 – international policymakers; 2 – national policymakers; and 3 – stakeholders.

- **A good definition of PPP**

  A generally acceptable definition of this complex phenomenon would be supportive to further development of public private partnerships. Based on rich experience collected from various environments and being well presented in professional literature, it should be possible for major international bodies concerned with PPP, including the UN family, OECD, and the European Commission to agree on a single definition acceptable to all involved, and disseminated as broadly as possible. (1)

- **Promotion of PPP**

  Though generally rather well known, the role and impact of PPP is still not fully recognised in relevant environments - even most business schools pay little attention to PPP. Efforts to popularize PPP are needed at all levels and in all spheres of public life, including educational research institutions and media, as well as among private business actors.

  These efforts are expected to lead towards development of a new PPP-oriented economic culture, which does not only facilitate a reconciliation between sometimes contradictory public and private
interests, but also allows and helps generate benefits from the innovative combination of the best elements of the two spheres. (1) (2)

- **Presenting Benefits and Challenges of PPP**

  As demonstrated by past experience, the key benefit of PPP can be defined in terms of **overcoming the limits and deficiencies of the two sectors**. The main constraints of the public sector are: stable but insufficient funds, long reaction times, complex decision-making procedures, lack of flexibility, public pressure on decision makers; while those of the private sector are: availability of top expertise, flexibility and short reaction times, independence in decision-making, as well as availability of sizeable funds at acceptable risk conditions.

  Objective presentation of benefits and threats of PPP most effectively addresses issues of negative public image in certain countries, particularly those in transition.

  While research has proven various and substantial benefits from PPP (public saving by combining resources and skills, sharing risks, encouraging innovation and internationalization), the **public at large still remains vaguely aware of these benefits**. Public authorities should undertake a sustainable effort to broadly communicate these benefits and thereby secure public support for PPP projects. (1) (2)

- **A regulatory and policy framework**

  A clear, consistent, stable and transparent regulatory and policy framework is required for **successful development of PPP throughout all stages** from **pre-transaction stage** (selection, screening, structuring, tendering, and evaluation) to the **post transaction stage** (regulation and monitoring). **Guidelines and handbooks** prepared by international organizations are very useful in this context and should be more systematically promoted and used, particularly at regional and local levels. (2)

- **PPP – integral part of economic development strategies and policies**

  Governments and regional/local authorities should install, perceive, recognize and consistently treat PPP as an **important pillar of economic development**, create **central/regional PPP units**, or even a **dedicated agency** to deal with all aspects of PPP policy and implementation. These entities will be able to perform their important function only if adequately staffed with experts of various profiles (technological, financial, legal, project management), as well as properly equipped and funded.

  These units should be involved in **all areas of PPP policy, operational support and evaluation**:

  - Policy formulation and coordination;
  - Quality control;
  - Technical assistance;
  - Standardization and dissemination;
  - Promotion.

  (1) (2)

- **Credibility of PPP model through accountability and transparency model**

  Due to involvement of substantial public funds in PPP project development, implementation and their operations, all procedures concerning public calls, tendering selection, negotiations, contracting, monitoring and evaluation, should be guided by **highest standards of transparent governance and accountability**. This prevents underperformance, inefficiency or misappropriations which results in loss of public trust and creates doubts about the PPP model.
Following this approach, ambiguities and unnecessary fiscal risks will be reduced and long term commitment to public support for PPP projects will be maintained and even reinforced. (1) (2) (3)

- **International sharing of good practice cases and centres of excellence**

  Though good practice cases cannot simply be transplanted, there are many interesting cases in various domains of PPP development around the globe, which deserve to be better known, as they offer important inspiration and valuable lessons. Governments and regional authorities should learn from these cases, while taking full account of specific circumstances in their own environment.

  There is a need to create a specific information service for PPPs wherein all bid documents, feasibility reports and current status of the projects would be published and accessible on a dedicated web portal.

  Centres of PPP excellence organized by United Nations Economic Commission for Europe and European Investment Bank, are expected to provide valuable information, consultancy and training. (1) (2) (3)

- **Inputs into project development and capacity building**

  Role of consultants: For development of PPP project the role of technical and transaction advisors is most critical. Hence, it is imperative that utmost care is taken in selection of consultants. Generally the consultant fee is a small proportion of the project cost and the value added by a good consultant should be much higher.

  Optimal allocation of risks, authority and accountability: There is a need for effective distribution of responsibility, costs and risks between the public and private sectors. In some cases, due to lack of proper project development, public authorities are not able to fulfil all of their commitments. This creates damage and should be prevented.

  Selection of private sector partners: To get the best technical and financial offer, the authorities should start interaction with the private sector from the project development stage, taking into account also legitimate specific concerns of the private bidders – of course in strictly unbiased way. (3)

- **Securing adequate finance**

  Lack of financial resources is often a key limiting factor for the development of public private initiatives. The following segments of the financial markets should play an increasing role in overcoming this bottleneck:

  - Developing corporate bond market;
  - Encouraging participation by pension funds and insurance companies;
  - Hedging mechanism for external borrowings and investments. (2)

- **Contribution to environment and competitiveness**

  Actions to increase energy efficiency through PPP contributes to squaring the circle between ever increasing demand for energy, efforts to increase productivity and at the same time securing environmental protection. Policy makers, educators and stakeholders should therefore perceive PPP as a vehicle serving two strategic objectives: supporting healthier environment, and creating a more
competitive, low carbon economy, opening new business and creating new jobs. International, national and regional actors should be engaged in promoting and popularizing these concepts. (1) (2)

- **Rewards for energy responsibility**

Since in the short run it is a challenge to secure economic viability of alternative energy generation and reduce energy consumption without negatively affecting economic activities and quality of life, national and regional authorities have to create fiscal, financial and other conditions to encourage economic operators, households and others to act responsibly without being economically disadvantaged.

It is essential that these conditions and rewards are **long term defined, well-balanced, transparent, stable and fair**. Through PPP these conditions are to be enjoyed equally by the private and the public sector. (2)

- **Support via Innovation and Research**

The representatives of the industrial and research stakeholders should determine the priorities for shared investment in R&D. Economic and financial incentives and government support for professional training and consulting, research, development and deployment could be an important first step. The new and innovative mechanisms, such as standards, labels, and energy performance contracting, may lead to increased certainty and demand for energy efficiency. (3)

- **Contractual Partnership**

Establishing a PPP on Energy Efficient Buildings in the form of a Contractual Partnership is the option preferred by business and other stakeholders. This can encourage confidence in the business sector to engage in the necessary longer-term projects in cooperation with research organisations.

An action with a strategically-managed route from research through development and demonstration to market deployment is needed, wherever possible with a pre-defined budget which would allow business to make long-term investment plans. (3)

- **Energy Performance Contracting (EPC)**

Energy Performance Contracting (EPC) consists in procuring energy efficiency as a service. Through innovative contracts, ESCOs (energy service companies) or other providers guarantee a specified energy performance and energy savings to the customer. In exchange they share the savings with the latter. If the project does not provide returns on the investment, the ESCO is often responsible to pay the difference.

Policies and incentives should be introduced to kick-start and catalyze the ESCO industry, as EPC in the public sector is especially important. It does not only help reduce energy costs in this sector, but also triggers the development of the ESCO-market and demonstrates the advantages of EPC to the economy in general. (2)
- Reinforcing the effect of public policies

PPP between public institutions and private companies, such as banks or private ESCOs are becoming necessary elements of public policy to account for the scarcity of public funds and the competition between diverse public needs (e.g. employment, education, health, security). These partnerships often rely on new and innovative funds that use tools traditionally used by the private sector (e.g. loans, equity participation, and venture capital).

In developing a new field of activity for companies (ESCO’s), governments need to introduce some incentives (soft interest rates, tax credits, etc.) or mandatory targets, (quotas or commitments), as well as a stable regulatory environment. The public authorities on national and regional levels should convince potential partners in public sector of the advantages of their involvement in energy efficiency investments and in support of ESCO through dissemination of positive experiences. (2) (3)