Overview of PPP experience

Historical context

The use of private innovation and finance in public infrastructure is not a new concept but rather an old tradition experiencing a new revival.

Background to PPP

The beginnings of partnership between private and public sectors can be traced as far back as the Roman Empire two thousand years ago in Europe. A network of postal stations was developed to accompany the vast expansion of the highway system under the Roman legions. The postal stations, which were actually small communities centered around large stables, warehouses, workshops, hotels and military barracks, were constructed and managed by a private partner for a five year period, sometimes including maintenance of associated highway, under a contract referred to as “manceps” and awarded by municipalities under competitive bidding. The Romans also notably conceded the construction and operation of ports and inland harbors.

However, this procedure disappeared with the fall of the Roman Empire and reappeared only during the Middle Ages for the construction of new fortified towns and the occupation of new lands in the south western region of France during the 12th and 13th centuries. Occupancy contracts for fortified towns concede the whole villages to their occupants under collective emphyteutic contracts which compelled the occupants to improve their village. Moreover, the practice of concessions on activities under monopoly in the community (mill, press, baker, bridge etc) as well as their associated tolls, generally on bridges and highways, in which the concessionaire paid a proportion of his income to the community to finance new works, was well-established under medieval custom.

During the 16th and 17th centuries, European sovereigns, and particularly in France, began much more expansive public works concession programs in canal construction, road paving (actual road concessions - see note¹), waste collection, public lighting, mail distribution and public transportation.

The industrialization in Europe of the 19th century brought rapid urbanization and expansion of public networks in transport (railways, tramways, metropolitan), water supply and sewerage and energy. This expansion, achieved largely by private entrepreneurs,

¹ In 1669, France adopted new public works contracts including a mandatory eight to ten-year maintenance period for new constructions, notably for paving of the major highway network. These contracts were the precursor to the modern concession contracts.
marked the golden age of concessions in Europe. The creation of railways took place under concessions in all European countries. In the North and the South, liberal ideas spawned by the French revolution and particularly the principle of free enterprise played an influential role in the systematic choice of concession. This period was one of weak administrative structures in all fields of delegated public action.

The 20th century European wars reversed the trend. The role of the State was increased by wars, both in preparing for them as well as in dealing with their consequences. The disruption of countries, economies and long-term contracts was strongly felt in all European countries. Rare before 1914, inflation and its effect upon contracts became clear during the Great Depression of 1929. The ensuing creation of the welfare state increased the role and resources of post-war states substantially.

As a result of economic turmoil and contractual standby or damage during war years, concessions in many fields were cancelled and rarely reestablished. The notion of state-owned companies was born to avoid the financial vulnerability of traditionally very long-term contracts, a movement which grew throughout Europe during the post-war periods, and consequently the size of the civil service sector increased considerably. In addition, with influence from Communist ideology, collectivism was considered as a viable and desirable alternative to free market principles.

Thus, after World War I, new public infrastructure was mainly designed, constructed and financed from public funds and prior to 1982 there was very limited private financing of transport infrastructure in developing or transition countries.

One major exception in Europe was the tolled motorway construction programs in France and Spain from the 1960s financed by private consortia, mainly contractors and banks. However, the economic shocks from the oil crises of the 1970s resulted in financial difficulty for many of the concession companies with many being subsequently nationalized - in Spain five out of twelve companies and in France, three out of four companies. (Module 6 -> Case Study -> France)

In the USA, PPPs have played a much less prominent role in the development of transport infrastructure. Although private investors built the canals and railroads that transformed the country in the 19th century, the modern highways that were built in the 1930s and 1940s were built by public companies held by state and local governments. Tolls were preferred in the eastern part of the country while western states used revenues from a dedicated gasoline tax to finance untolled “freeways”. From the 1950s, the creation of the national Highway Trust Fund, funded by a national fuel tax of four cents a gallon, allowed the construction of the interstate highways system.

Throughout the industrialized and developing world, there has been a renewed move to liberalization and privatization of infrastructure activities from the 1980s and increasing dramatically into the 1990s. The first decade of the years 2000 has seen some consolidation of certain PPP programs, stagnation of others and expansion in new markets, notably in Asia.

Several developing countries have participated in this movement, pioneering improved forms of PPP. Market leaders among emerging economies such as Chile, Brazil, China, Hungary and, recently, India have gone further in introducing the private sector
in infrastructure development and maintenance than many industrial countries. Simultaneously, initiatives aiming at outsourcing maintenance activities to private firms are being implemented in Africa, Asia and to a larger extent in Latin America.


Public-Private Partnerships and the Development of Transport Infrastructure: Trends on Both Sides of the Atlantic, PB Consult and FHA, 2006

**Ongoing PPP Programs Worldwide**

**A number of advanced OECD countries now have well-established PPP programs.**

The United Kingdom’s Private Finance Initiative (PFI), which began in 1992, is currently responsible for about 14 percent of public investment, with projects in most key infrastructure areas. Other countries with significant PPP programs include Australia (and in particular the state of Victoria) and Ireland, while the United States has considerable experience with leasing (which shares characteristics with PPPs). Many continental Western European countries now have a number of PPP projects, although their share in total public investment is quite small; these include France, Italy and Spain, who have had a long-standing tradition of concessions for motorway development, and others such as Finland, Germany, Greece, the Netherlands and Portugal, Reflecting a need for infrastructure investment on a large scale, but weak fiscal positions, a number of countries in Central and Eastern Europe, including the Czech Republic, Hungary, and Poland, have embarked on PPPs. There are also fledgling PPP programs in Canada and Japan. PPPs in most of these countries are dominated by road projects. In addition, PPP-type arrangements are being used to develop a trans-European road network.

In Latin America, Chile, Colombia, and Mexico have used PPPs to promote private sector participation in public investment projects. Chile has a well-established PPP program that has been used for the development of roads, airports, prisons, and irrigation. In Colombia, PPPs have been used since the early 1990s, but early projects were not well designed. A relaunched PPP program emphasizes road projects. In Mexico, PPPs were first used in the 1980s to finance roads, but unsuccessfully. Since the mid-1990s, Mexico has used PPPs with greater success for a growing number of public investment projects in the energy sector, and there are plans to extend the use of PPPs to the provision of other services. Some other countries, and most notably Brazil, are planning significant use of PPPs. As in Europe, a regional approach to infrastructure development in Latin America that would involve PPP-type arrangements is under consideration.

In Asia, the use of PPPs is continuing to develop with a well established program in South Korea, an extensive investment program in China, a rapidly expanding program in
India and other programs, although with varying degrees of implementation and success, in Indonesia, the Philippines and Singapore. In Africa, South Africa is a clear regional leader, and has embarked upon or is developing PPPs in a number of sectors. Few other African countries have very much experience with PPPs or other forms of private sector involvement, other than in the power and water sectors (e.g., in Cote d’Ivoire and Senegal).

The Toolkit presents a selection of country and project case studies in Module 6 -> Case Studies. These case studies are intended to provide useful international examples for the preparation of PPP strategy and project options.

They present both successful examples of best practice and examples of projects which have faced difficulties and, in some cases, collapse as a result of insurmountable problems.

The case studies are presented as either:

- Country case studies which present the overall strategy and development of PPP in the highway sector. Presented countries are France, India, Korea, Brazil, Indonesia, USA
- Project case studies which present a specific project, its characteristics and development which determined its perceived success or failure. Presented projects are in Croatia, Hungary, Chile, South Africa, Serbia, UK, Zambia

Further information on experience and processes in performance-based maintenance are presented in: