

July 12, 2021

How Public-Private Partnership Schemes Can Be A Solution To National Economic Recovery

Toshiro Nishizawa, Professor, The University of Tokyo

GrasPP

THE UNIVERSITY OF TOKYO



What is PPP?

“a contractual arrangement between public and private entities aimed at improving and expanding infrastructure services”

Infrastructure services provision is normally long-term.

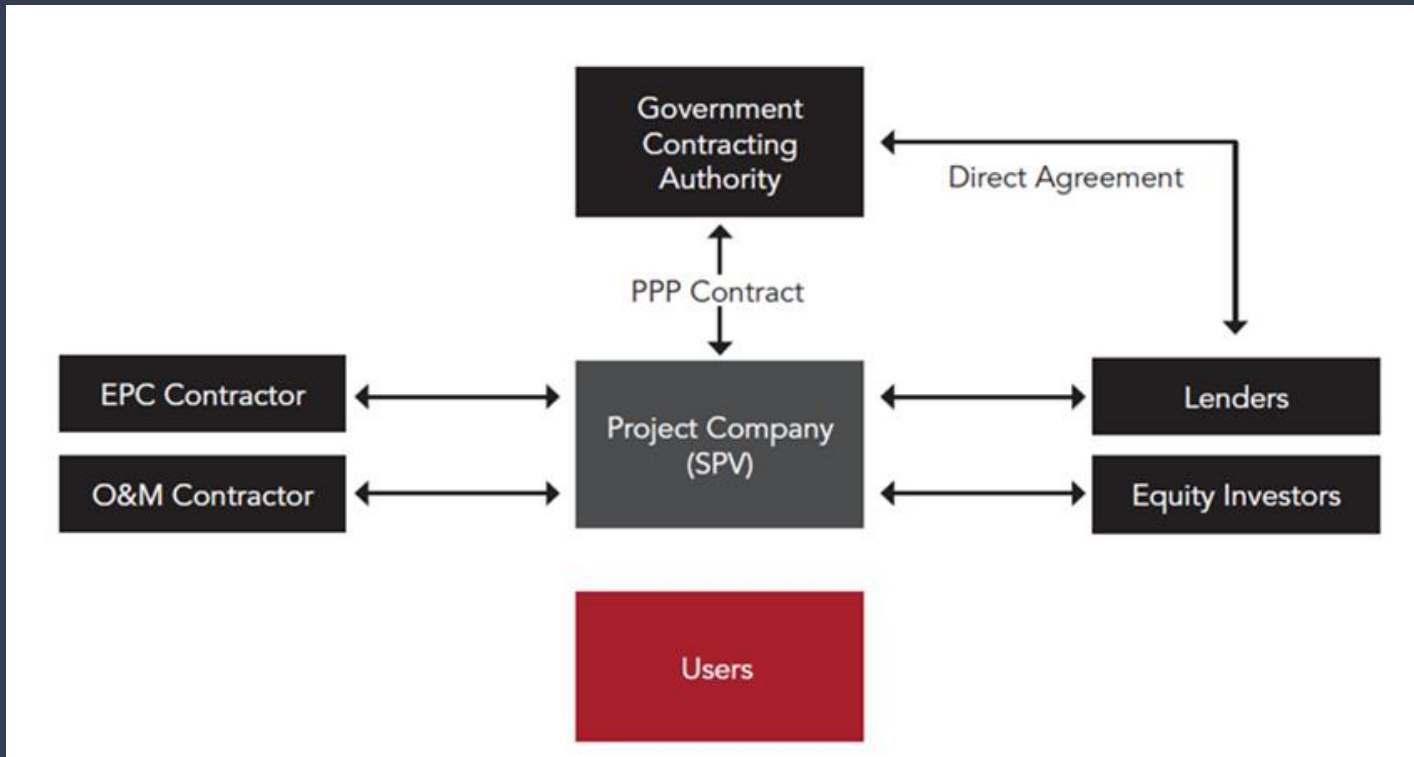
Both public and private parties agree to legally binding contracts.

Not unilateral

Partners on an equal footing

Why are some stakeholders willing to agree to legally binding contracts (responsibilities and obligations) for a project?

What is the motivation to join a PPP project?



direct stakeholders

indirect stakeholders

Source: World Bank et al. 2017.

What is the motivation to join a PPP project?

Public-sector players

Satisfy people—indirect stakeholders—by providing better-quality infrastructure services while mobilizing new sources of finance

New sources of finance, if mobilized, might help the government to reallocate scarce budgetary resources to other priority expenditures.

What is the motivation to join a PPP project?

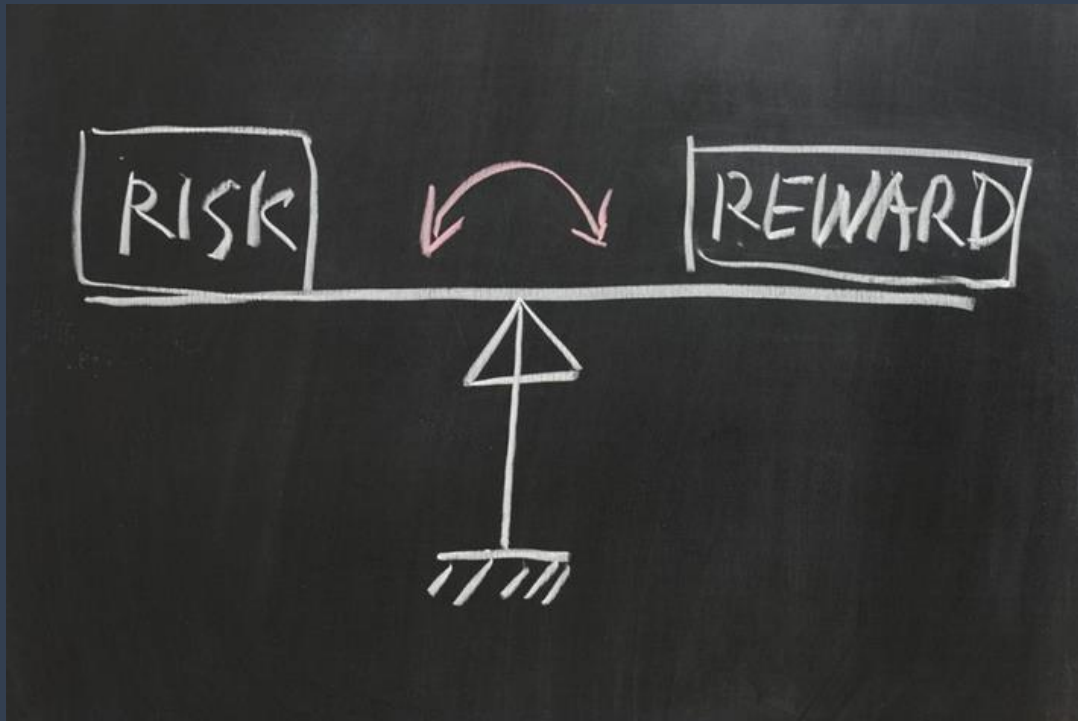
Private-sector players

Private-sector players might be able to earn a risk-adjusted return.

Risk sensitive with the different groups—investors, lenders and other contractors—showing different degrees of risk tolerance

The perceived risk-adjusted rate of return helps determine whether the expected reward justifies risk taking.

What is the motivation to join a PPP project?



Source: Forbes.

Only with the risk-adjusted rate of return attractive enough, private-sector players are willing to take certain risks and agree to sign legally binding contracts to assume responsibilities and obligations for a project.

Risks should be compensated by rewards.

Risk tolerance of public-sector players

PPP is not a magic wand or a quick and easy solution.

Project risks do not disappear by adopting PPP schemes.

Direct stakeholders are expected to share risks to launch a PPP project.

Public-sector players should take certain risks and actually are taking certain risks by signing the contract for a project.

Public-sector players should be sensitive to risks as well.

How to design risk and reward allocation among direct stakeholders

A particular risk should be allocated to a party that can manage it better than others.

Ultimately the cost of infrastructure services has to be paid either by the users, or by current and future taxpayers.



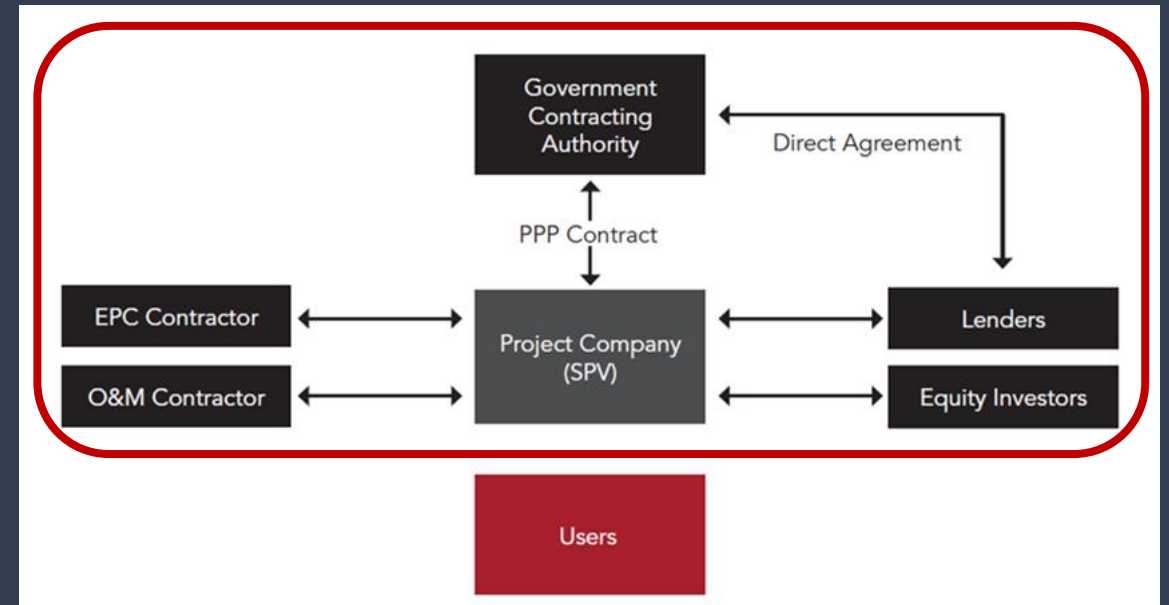
Source: CartoonStock (Kieran Meehan).

Cost-benefit comparisons

Policy makers should

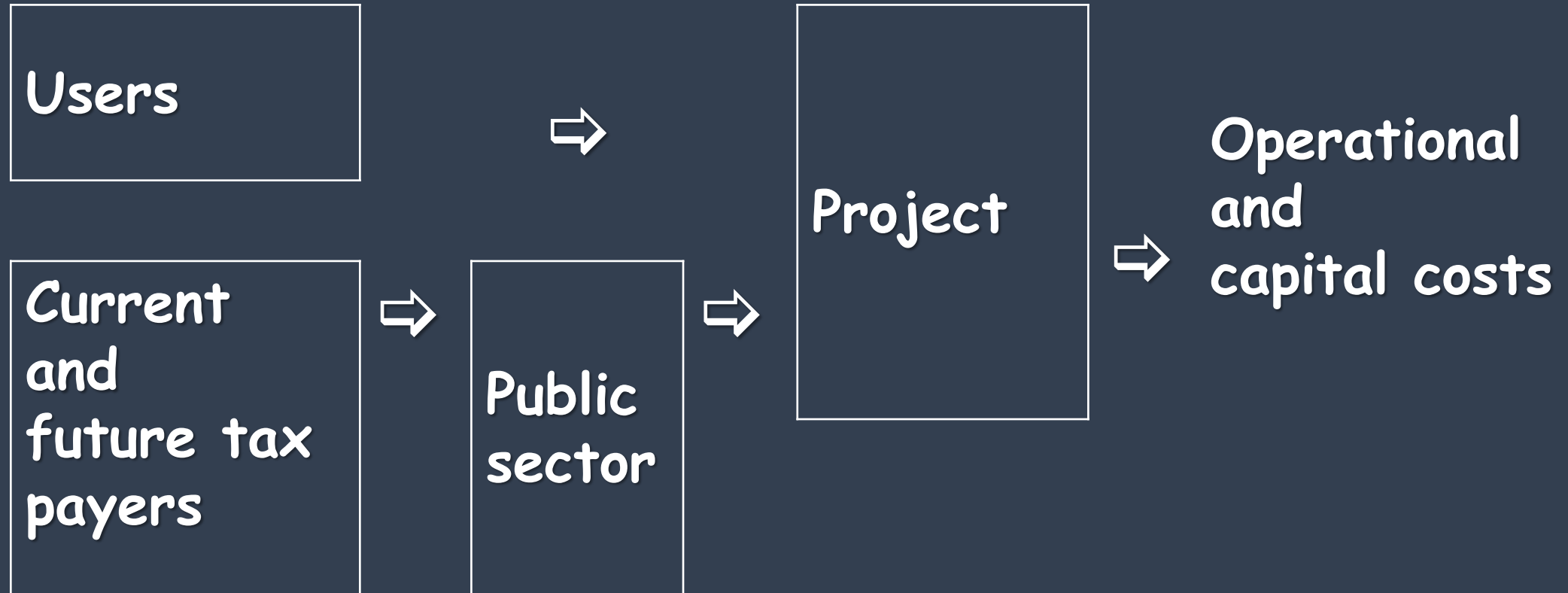
balance the sharing of risks and rewards among direct stakeholders; and

allocate costs and benefits between direct stakeholders and indirect stakeholders.

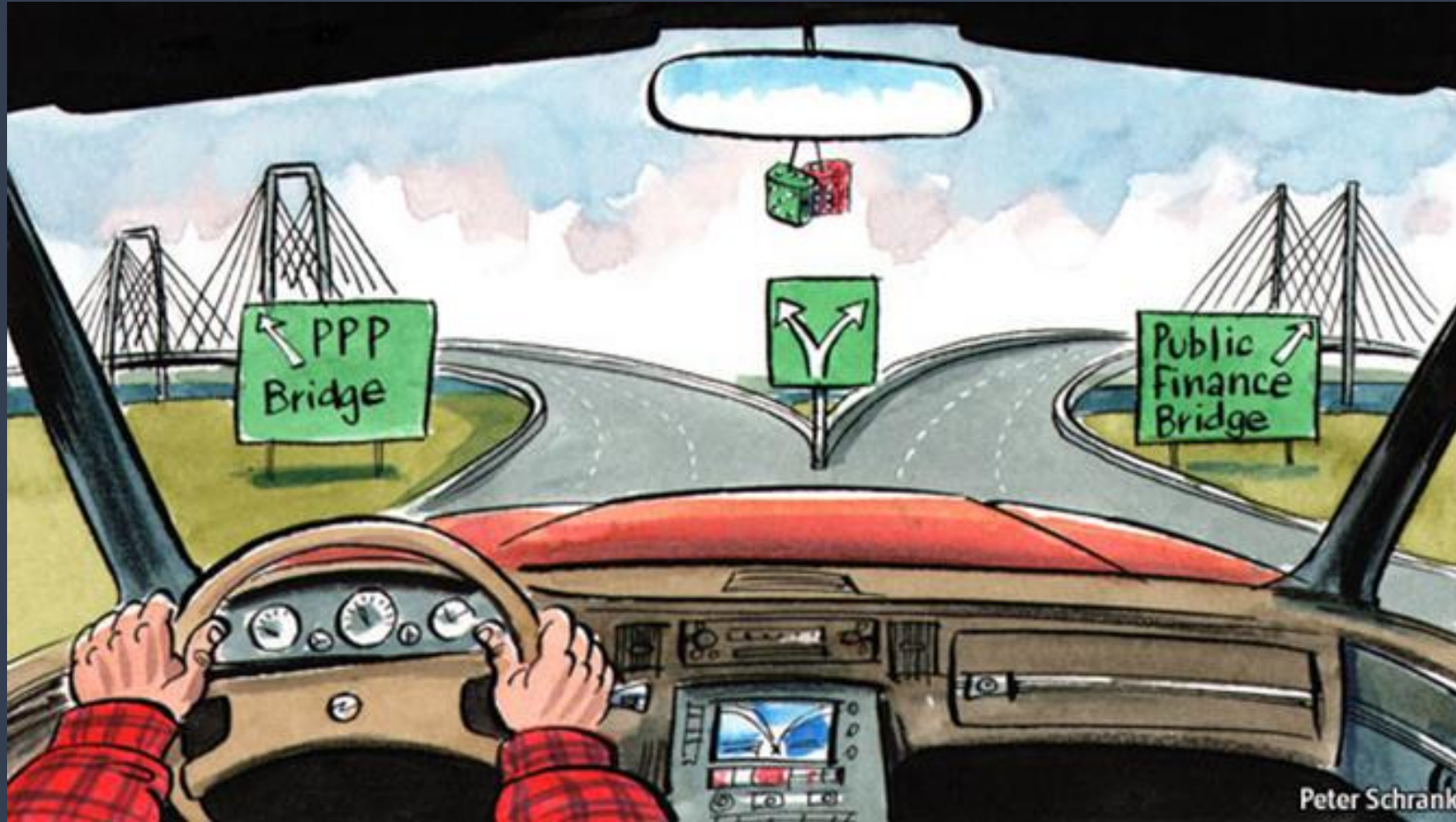


Source: World Bank et al. 2017.

Who pays the cost



Go for a PPP option or not?



<http://www.economist.com/news/united-states/21572794-natural-experiment-infrastructure-river-runs-through-it>

High-quality services at affordable prices?



Source: Southeast Asia Real Time, The Wall Street Journal, Southeast Asia, January 26, 2014.



Source: The Economist, July 26, 2014.

PPP in the post-pandemic era

"During the pandemic, the number of daily users of the Jakarta MRT services declined by 90 percent. After the closure of the three previous stations on Monday, April 20, only 'was recorded; 4 thousands of people use the Jakarta MRT service (Monday, 20 April 2020 around 4,961 people and Tuesday, 21 April 2020 around 4,351 people)."
Source: PT MRT Jakarta, May 12, 2020.



PPP in the post-pandemic era

Be patient.

Be more selective.

Design risk and reward allocation among direct stakeholders even more carefully.

Make sure the project is resilient, inclusive and sustainable.

Creativity and enabling institutional environments

Continued efforts to strengthen human and institutional capacity

July 12, 2021



How Public-Private Partnership Schemes Can Be A Solution To National Economic Recovery

Toshiro Nishizawa, Professor, The University of Tokyo

tnishizawa@pp.u-tokyo.ac.jp

GraSPP

THE UNIVERSITY OF TOKYO

July 12, 2021

How Public-Private Partnership Schemes Can Be A Solution To National Economic Recovery

GrasPP

THE UNIVERSITY OF TOKYO

