**Remarks by Richard Hemming**

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*Abstract*

1. Public-private partnerships (PPPs) in infrastructure are often misunderstood. Their distinguishing features are;

* The shifting of government asset building costs to the future;
* The bundling of asset building and service provision under a single contract;

Private finance is not new; private sector asset building and service provision are not new

Shifting government costs to the future allows liquidity-constrained governments to build essential infrastructure.

The advantage of bundling is that asset design is tailored to service delivery needs.

Private capital is put at risk, and so both asset building and service delivery should be efficient.

2. Problems:

* Gains from bundling, and therefore the value-for-money offered by PPPs, are overstated;
* Projects are selected because they can be PPPs, not because they meet priority objectives;
* PPPs can end up costing more than traditional procurement (i.e., public investment and government supply of services);

PPPs end up as discredited as privatization because both are done for the wrong reasons.

3. The key issue is government accounting:

* With traditional procurement investment costs, borrowing, debt service and service delivery costs are on-budget, assets and debt are on-balance sheet;
* With PPPs only service delivery costs (which include capital costs) are on-budget, asset will be on-balance sheet if it is eventually transferred to the government;
* Government facing fiscal constraints (i.e., deficit and debt limits) choose PPPs because accounting practices make their costs non-transparent;
* In the worst cases, government concede value-for-money to attract private partners (e.g., by providing guarantees);
* End up with ‘accounting PPPs’ rather than ‘efficiency PPPs.’

4. Solutions:

* Recording PPP investment and borrowing on-budget and on-balance sheet provides an incentive to choose efficiency PPPs;
* This is easier said than done—accountants cannot agree what is appropriate, governments are resistant;
* At the very least, headline deficit and debt numbers have to interpreted with caution;
* How serious is the issue?

5. Any other problems?

* Government capacity;
* Private sector development;
* Government as a business partner;
* Financing;
* Special purpose vehicles;
* Contracting.