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TOPIC:

A Guide to Public-Private Partnerships[1] (PPPs): What Public Procurement Specialists Need To Know

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[1]Although other types of PPPs such as policy, service, capacity building and economic development partnerships are briefly discussed, the main focus of this report is placed on infrastructure PPPs.

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Executive Summary

Facing increasingly constrained budgets and with an inability to generate additional revenues, many governments have turned to partnerships with the private and nonprofit sectors. Public-private/nonprofit partnerships (PP/NPs) are regularly touted, sometimes to the point of excess, as being innovative and all-encompassing solutions to these budgetary constraints. Such contractual arrangements are typically linked with increased quality, improved service delivery, cost savings and lower costs of financing. And while PP/NPs are surely interesting and creative mechanisms, they are not necessarily as manageable or as effective as popular discourse and media would lead one to believe. In fact, it's quite the contrary. PP/NPs are highly complex structures that are quite unique on a case-by-case basis. Also, it's not always the case that a PP/NP is the best procurement option. There is much promise associated with PP/NPs. There is also much confusion.

This report provides a comprehensive yet accessible, overview of PP/NPs. While it touches on the numerous possible forms of partnerships between the public, private and nonprofit sectors – it focuses primarily on one type of such partnerships – infrastructure PPPs. It provides a detailed discussion of their structures and benefits. The report also explores the complexities associated with establishing and managing PPP relationships. It raises a number of cautions and provides a set of best practices regarding PPPs both for the organizational level as well as for the policy level.

It is concluded that while PP/NPs are certainly a welcomed development in procurement practices, we still should proceed with a great deal of caution. PP/NPs are complex contractual agreements. The fact that PP/NPs represent "exotic" financing mechanisms does not add any assurances for their success. Furthermore, PP/NPs do not provide a magical solution to all financing challenges faced by the public sector. We should not err into thinking of PP/NPs as untapped sources of funds. There is a very meaningful difference between an additional financing option and new funds. A PP/NP represents the former and not the latter. Confusing the two can be very dangerous because it leads to overstating the benefits and understating the risks associated with PP/NPs.

What is a Public-Private Partnership (PPP)?

There are several types of partnerships in which public, private and nonprofit partners can become engaged - policy partnerships, partnerships for delivery of public services, capacity building partnerships, economic development partnerships and infrastructure partnerships. Depending on the context (policy, service, capacity, economic development or infrastructure), a partnership between public, private and nonprofit partners will be defined in different ways (Table 1 provides some of the more commonly used definitions of PPPs.).

Typically, a PPP is conceptualized as a contractual agreement between one or more governments/public agencies and one or more private sector or nonprofit partners for the purpose of supporting the delivery of public services or financing, designing, building, operating and/or maintaining a certain project for the public good. These types of partnerships are usually developed with the implicit and explicit objectives of leveraging additional financing resources and expertise, which otherwise might not have been available for public purposes through traditional procurement practices.

A PPP is conceptualized as a contractual agreement between one or more governments/public agencies and one or more private sector or nonprofit partners for the purpose of supporting the delivery of public services or financing, designing, building, operating and/or maintaining a certain project.

Conceptually, there are three critical points that should be emphasized. First, there is no agreement within the literature on a precise definition for a PPP. The literature in the field is mired by a terminological ambiguity that has resulted in a large diversity of working definitions (Hodge & Greve, 2008). In fact, not only is there no agreement on one common definition of a PPP - there is quite a debate regarding what is a "true" PPP and what is not[2]. Some assertively sponsor the notion that only an infrastructure PPP can be considered a genuine PPP. A PPP for the provision of a public service such as re-specialization training or social services, for instance, would not be considered a true PPP as it does not involve infrastructure. Along similar lines, a research PPP or social enterprise PPP would not be considered a "real" PPP either. Furthermore, it has been argued that cases when the public sector simply contracts out certain operations without transferring any of the financing or legal responsibilities to its partners should not be considered PPPs – these instances would fall under standard contracting out practices.

Second, the contractual partner need not, necessarily, be from the private sector. In recent years, nonprofits have become active and effective actors in the provision of public services (not so much in terms of infrastructure PPPs, but certainly for other types of PPPs). To this extent, given that the line between what is nonprofit, the nonprofit sector and what is private sector have become effectively blurred (e.g., nonprofit public benefit corporations), it is appropriate to start considering nonprofits as legitimate potential partners in PPPs. So, a public-private partnership can easily transform into a public-private-nonprofit partnership (PP/NP), especially within the context of policy and service delivery. For simplicity sake, it is perhaps best to continue to refer to such arrangements, even in the presence of a nonprofit partner, as a PPP.

Finally, a PPP implicitly or explicitly assumes a synergetic and mutually beneficial relationship between partners. In other words, a partnership (based on trust and common interest), as a contractual arrangement, provides greater efficiencies and enhanced outcomes than a mere contractual agreement – as it were, the sum is greater than its parts. This is obviously a strong assumption to make, which may be

[2] The conceptual and theoretical ambiguity associated with the idea of a PPP, especially a non-infrastructure PPP, has surely not benefited the intellectual growth of the area. It is often the case that the concept of a "PPP" is used out of mere political convenience, without much thought being given to substance. Due to its "overuse" and conceptual "abuse," keeping the "value" of the concept has been an important challenge for its advocates. Numerous critics have dismissed the concept of a non-infrastructure PPP as conceptually hollow.

easily questioned on the basis of suffering from wishful thinking and perhaps being a bit naïve. Yet, this is very much a core assumption, even if it often remains unstated, behind the numerous benefits associated with a PPP. A PPP without mutual long-term commitment beyond its mere contractual terms – is just that – a contract.

Table 1. Common PPP Definitions

Definition	Author(s)
Cooperations of some sort of durability between public and private actors in that they jointly develop products and services and share risks, costs and resources that are connected with these products.	Van Ham & Koppenjan (2001)
An arrangement where government states its need for capital-intensive, long-lived infrastructure and the desired facility is built using a complex combination of government and (mostly) private financing and then operated by a private entity under a long-term franchise, contract or lease.	Savas (2000)
Working arrangements based on a mutual commitment (over and above the implied in any contract) between a public sector organization with any other organization outside the public sector.	Bovaird (2004)
A form of structured cooperation between public and private partners in the planning/construction and/or exploitation of infrastructural facilities in which they share or reallocate risks, costs, benefits, resources, and responsibilities.	Koppenjan (2005)
Complex, long-term municipal contracts with private companies for some combination of services, construction, or financing in return for some combination of public funds, public assets, or user fees.	Bloomfield (2006)
Arrangements whereby private parties participate in, or provide support for, the provision of infrastructure, and a PPP project results in a contract for a private entity to deliver public infrastructure-based services.	Grimsey & Lewis (2007)
A contractual arrangement between a public or governmental agency and a private entity that facilitates greater participation by the private entity in the delivery and operation of an infrastructure project, facility or service. Typically, within the transport sector, such an arrangement involves one or more aspects of the funding, financing, planning, design, construction, operation and maintenance of a transportation facility. Within the commonly utilized context of financing and/or delivering projects, a public-private partnership is an approach or mechanism that is utilized to move the funding process from a single strategy of governmental aid through grants to regional and local authorities, to a more diversified approach involving increased utilization of private capital markets	Schneider & Davis (2007)
Contractual arrangements in which certain risks are transferred from public agencies to private firms – as a way to fund these [funding] deficits, accelerate competition, improve operating efficiencies, and reduce operating costs.	Page, Ankner, Jones, & Fetterman (2008)
A long-term contractual arrangement between the public and private sectors where mutual benefits are sought and where ultimately (a) the private sector provides management and operating services and/or (b) puts private finance at risk.	Garvin & Bosso (2008) Garvin (2010)
A contracting arrangement in which a private party (normally a consortium) is structured around a special purpose vehicle (SPV).	Raisbeck, Duffield, & Xu (2010)
Public–private partnerships are ongoing agreements between government and private sector organizations in which the private organization participates in the decision-making and production of a public good or service that has traditionally been provided by the public sector and in which the private sector shares the risk of that production.	Forrer, Kee, Newcomer & Boyer (2010)
A cooperative venture between the public and private sectors, built on the expertise of each partner, that best meets clearly defined public needs through the appropriate allocation of resources, risks and rewards.	The Canadian Council for Public-Private Partnership (CCPPP, 2015)
PPPs are typically medium to long term arrangements between the public and private sectors whereby some of the service obligations of the public sector are provided by the private sector, with clear agreement on shared objectives for delivery of public infrastructure and/or public services.	Public-Private Partnership In Infrastructure Resource Center (PPPIRC, 2015)
Public-private partnerships (P3s) are contractual agreements formed between a public agency and a private sector entity that allow for greater private sector participation in the delivery and financing of transportation projects.	Federal Highway Administration (2015)

Infrastructure PPPs

At present, the most coherent and developed body of literature is the one associated with infrastructure PPPs. The latter can take on a number of forms (Table 2 introduces the most commonly encountered forms of infrastructure PPPs and provides a few well-known examples.). In its most basic form, an infrastructure PPP is nothing more than the contracting out of specific operations where the private partner is held accountable for and is interested in the success of the project. For instance, the same private firm can be contracted to build and operate/maintain a given project. In this sense, the partner will have no incentives to "cut corners" during the construction phase (hence delivering quality work on time), since any shortcuts taken during this stage could hurt the bottom line during operation/maintenance[3]. In its most complex form, a PPP is a relationship within which the private partner would have a de facto "ownership" of the project while the public partners would simply provide the necessary legal authority in order for the private partner to finance the project or complete contractual obligations.

Design-Build (DB)

This type of PPP combines two otherwise separate operations into one contract. The public sector provides the financing and procures from a private partner (one firm or a consortium) what is traditionally a fixed-fee contract, that is, both the engineering and the construction services. In this setup, the private partner assumes the responsibilities and risks that come with completing the project for a fixed fee within a given timeline. The public sector maintains full ownership and financial liability for operation and maintenance.

Although, in this setup, the private partner is responsible for the design of the project, this does not mean that the public entity bears no responsibility for this phase. Quite the contrary. In order to complete the necessary bid documentation and evaluate the consequent bids (as well as assess the progress of work), the public sector partner is expected to complete at least a portion of the engineering preparation. The degree of design involvement will obviously depend on the context and will vary on a project-by-project basis.

Among others, the DB PPP has four important advantages. First, it allows the public sector to make use of private sector expertise. Second, it introduces an important level of quality and price control, as the private partner is often bound to a fixed-fee contract. Third, it provides opportunities for cost savings. Finally, the public partner is able, although only marginally, to share some financial risk with the private partner.

Design-Build-Operate-Maintain (DBOM)

This is a significantly more sophisticated partnership that adds operation and/or maintenance responsibilities to designing and delivering the project. While still financing the project, the public sector procures the design, construction, operation and/or maintenance from the private sector through a single contract. Typically, the public sector continues to assume the full financing burden (inclusive of revenue risks), but also keeps any possible surplus revenue from operations (if that is indeed the case).

The reason for the "and/or" qualification is the fact that a private partner can be contracted to maintain the project without actually operating it (DBM). This is the case with social infrastructure projects such as schools or governmental buildings. Under this type of scenario, a private partner is

[3] Here it becomes important to note that it has to be the same company for both contracted operations. It is the very fact that the company's bottom line will suffer in the future that acts as a control/performance mechanism for its present performance. In other words, it's in the best interest of the company not to save money by attempting to provide a lower quality project. Indirectly, then, the company's drive for profit ensures that the public receives a high quality service. If separate operations are contracted out to different entities that have no interest in the project beyond the completion of the specific contracted obligation – this would not qualify as a PPP. This would simply be a contracting-out relationship.

contracted to design, construct and maintain the project, but not operate it (for obvious lack of expertise). Yet, even in social projects, if the private or nonprofit partner is part of a diverse consortium, it can assume the operation of the project (e.g., education, social programs) as well as the maintenance of the actual physical asset (e.g., Pembroke Pines Public Charter School, FL).

The DBOM PPP has all the advantages of a DB PPP plus a few others. First, it conditions the private partner to account for maintenance and operation costs early in the design stages. Given that infrastructure maintenance costs are usually more significant than construction costs – the importance of performing a lifecycle cost analysis during the design phase can hardly be overstated. Second, this type of PPP provides ample opportunities for the private partner to achieve efficiencies while maintaining quality. Finally, while the public partner sacrifices much of the direct control of the final project once the contract is awarded, it also shifts a greater portion of responsibilities and risks to the private partner.

Design-Build-Finance (DBF)

The DBF type of PPP combines the partial or full financing of the project with its design and construction (or delivery in the case of non-infrastructure programs) through a private or nonprofit partner. Although the public partner might only partially finance the project, it retains full responsibility and risk associated with its operation and maintenance.

There are a few important benefits that are associated with a DBF PPP when compared to a DB PPP. First, it obviously allows the public partner (which might be financially constrained) to tap into new financing options (deferring payments into the future[4] or by indirectly accessing financing sources such as credit lines or private equity investment funds that were not available before). Second, the private partner assumes (directly or indirectly) some financial risk associated with the project. Finally, the deferred payments (their timing to be more exact) can be employed as an incentive mechanism to ensure timely delivery on the contract.

Design-Build-Finance-Operate-Maintain (DBFOM)

This is the most complex form of a PPP. The financing, design, construction, operation and/or maintenance of a given project are bundled together under one contract, which is awarded to a private or nonprofit partner. Future revenue streams are used to leverage the initial full or partial financing of the project. Although it is not always the case, it is quite common that under such agreements the entire responsibility for raising funds falls on the private partner. For all intents and purposes, in many cases (not always) the private partner ends up "owning" (through long-term leases) the project (much more common for international than domestic PPPs). Here, too, just as in the case of DBOM, the operation and maintenance do not have to go "hand-in-hand." The case in point is the construction of the courthouse in Long Beach, CA. The private partner was contracted to design, finance, construct and maintain the project (DBFM); for understandable reasons the partner was not involved in its operation. The main added benefit of a DBFOM PPP compared to other types of PPPs, is the ability of the public sector to shift a greater portion of the financing and revenue risks to the private partner.

Why Partnerships with Private and Nonprofit Partners? Why Now?

Why Partnerships?

In recent years, partnerships between public, private and nonprofit sectors have seized the interest and imaginations of numerous scholars, elected officials and public administrators. Many have touted such partnerships as the next "big thing" of creative procurement instruments available to the public sector. On aggregate, such partnerships are often seen as highly powerful arrangements that can mobilize resources and develop solutions to complex problems, cutting across sectors and policy domains. Thus

[4] This is a particularly attractive option from an accounting standpoint as deferred payments are not qualified as debt.

far, domestic and international experiences have indeed shown some promise. These types of arrangements, typically clustered under the umbrella term of public-private partnerships (PPPs), if designed and implemented properly, can become rather effective mechanisms for the delivery of public services and infrastructure, providing enhanced quality of service over traditional approaches. "If properly designed and implemented," however, remains a critical qualifier.

Establishing PPPs that are effective in operation is no easy task. If one were to look beyond the "glamour" of the concept, one would easily recognize that PPPs are inherently complex contractual agreements. Similar to any other multifaceted contracts, PPPs differ across projects, sectors, levels of government and countries. To some extent, each PPP is unique (especially those involving direct private sector financing). This makes the establishment and management of PPPs quite challenging. Because there is no template for what constitutes a good contractual agreement and because each case might be distinctive in many ways – there are no guarantees that success can be "copied" from project to project.

Table 2. Types and Examples of Infrastructure PPPs

Type of PPP	Description	Example
Design-Build (DB)	The project is financed, operated and maintained by the public partner, however, the design and construction of the project is contracted out for a fee (typically fixed) to a private partner.	▪ Denver Union Station (CO) ▪ The Intercounty Connector (MD) ▪ Bay Area Rapid Transit (CA) ▪ Reno Transportation Rail Access Corridor (NV)
Design-Build-Operate-Maintain (DBOM)	The project is financed by the public partner, however, it is designed, built, operated and/or maintained by the private partner.	▪ Hudson-Bergen Light Rail (NJ) ▪ Las Vegas Monorail (NV) ▪ Pembroke Pines Public Charter School (FL) ▪ Tolt Treatment Facility (WA)
Design-Build-Finance (DBF)	The project is partially or fully financed by the private partner, which is also responsible for its design and construction. The public partner retains full responsibility in terms of operation and maintenance.	▪ 95 Express (FL) ▪ I-485 Charlotte Outer Loop (NC) ▪ Innerbelt Eastbound Bridge (OH) ▪ Northwest Corridor Project (GA)
Design-Build-Finance-Operate-Maintain (DBFOM)	The project is financed, designed, built, operated and/or maintained primarily through the private partner. In essence the project is "owned" by the private partner. The public partner provides a tax-exempt status for the project. Typically, there is no direct funding provided by the public partner.	▪ 91 Express Lanes (CA) ▪ I-95 HOV/HOT Lanes (VA) ▪ Port of Miami Tunnel (FL) ▪ Presidio Parkway (Phase II) (CA) ▪ IH 635 Managed Lanes (TX) ▪ Long Beach Courthouse (CA) ▪ Long Beach Civic Center (CA) ▪ University System of Georgia Campus Housing (Corvias Campus Living) (GA)

Why Now?

There are number of important reasons why many governments, both domestically and internationally, have turned to partnerships with private and nonprofit partners as the structure of choice for the delivery of public services or the completion of infrastructure projects. First, the nature of governance, in particular in terms of the social issues encountered, has significantly changed in the past two decades. Many of the public challenges faced by today's governance have become "wicked" in character – that is, complex, open-ended and without a rigid or unitary solution; these issues continue to "adapt" to the solutions that had been developed for them (Weber & Khademian, 2008). In this sense, traditional approaches to attending to rising social issues are neither sufficient nor effective in addressing these challenges. Government can no longer effectively service existing public problems and demands, if left solely to its own devices and expertise. Because its own resources and capabilities are no longer sufficient, governments have looked to private and nonprofit sectors for ideas and solutions.

Second, the lines between what is "public" and what is "private" have become significantly blurred (Kettl, 2008; Milward & Provan, 2000). The belief that the private sector is driven by bottom line alone is no longer applicable (nor acceptable within political discourse). Social responsibility is now very

much the domain of the private sector just as it has traditionally been for public agencies. Within this context, citizens expect that public, private and nonprofit actors will all share accountability for responsive and responsible governance. In many ways, we are entering an age in which shared and collaborative governance lies at the very core of how we understand the current administrative state, with private and nonprofit actors expected to commit to good governance.

Third, investments in infrastructure have always been a highly valued tool by government for intervening in an underperforming economy. Ever since the Great Depression, government has seen infrastructure projects as one of the better way of creating jobs and revitalizing a struggling economy. This has not changed. The significance of government procurement as an "economic tool" is only expected to grow in the near future. Given that PPP designs are a "perfect fit" for infrastructure projects, they are growing in popularity within the context of increasingly unstable economic environments, both at the local and at the national levels.

Fourth, the Great Recession of 2007-2008 has conditioned an extreme fiscal austerity, which is now becoming largely accepted as being the "new normal." Governments at all levels are currently operating under gradually more constrained budgets. While public demands have not subsided, quite on the contrary, they have intensified, public agencies are facing a growing scarcity of both human and financial resources. Today, many find that traditional financing sources are no longer adequate to satisfactorily address existing infrastructure needs (Page, Ankner, Jones, & Fetterman, 2008). The pressure to do more with less has led governments, domestically and internationally, to seek new and creative ways of raising funds for purposes of delivering public services and building infrastructure.

Finally, given that PPPs place much of the necessary actions and decision-making in the hands of the private or nonprofit partners, this reduces significantly the degree of politicization associated with procurement decisions. Considering that in developed countries public administration has become more and more politicized over the past decade (Page & Wright, 1999; Peters & Pierre, 2004; Van den Berg, 2011), not the least due to relatively smaller public revenues, this is no trivial matter. The ability to remove political deadlocks from major project stages can only increase the probability of successfully achieving the desired outcomes.

Are PPPs Entirely New to the US?

Since the early 1930s, public procurement has become an important economic tool for governments at all levels. In 2014 alone, according to the Congressional Budget Office (CBO), all levels of government spent on transportation and water infrastructure (capital and O&M) approximately $416 billion, state and local governments spent $320 billion and the federal government spent another $96 billion (CBO, 2015). Public procurement is also no stranger to innovation. In fact, for a number of decades, public procurement practices have often been at the forefront of innovative financing techniques. Even in terms of public policy, public procurement (e.g., through policies oriented to support small business, women-owned businesses, minority-owned businesses, local preferences) has more often than not preceded state and national legislation in targeting desirable social outcomes (McCrudden, 2004). Given its ability to bypass political gridlock, public procurement spending can often be used as a tool for addressing social and policy needs before an official legislative recourse is passed (this is particularly true for local level governments).

Historically, in the United States, the financing, design and construction of infrastructure was placed in the hands of the public sector. Once constructed, the maintenance and operation of the newly built project also fell within the realm of the public entity that was responsible for its planning. Although private firms were involved in the process, their participation would have been constrained to bidding for specific tasks. Winning a bid for one specific task did not guarantee that

...for a number of decades, public procurement practices have often been at the forefront of innovative financing techniques.

the same firm would have been involved in the later stages of the project.

PPPs, as a form of financing, were pioneered in the UK in the early 1990s (those involving financing are typically termed Private Finance Initiative or PFI). In the US, they developed into a recognizable procurement practice in the late 1980s-early 1990s. Yet, despite the fact that in other countries PPPs "took off" as soon as they were introduced – the US has been much more timid about them. In fact, according to *Public Works Financing* (PWF) – the US is a laggard in the PPP market (PWF, 2015). Compared to many other countries such as Australia, Germany, UK and Canada, only a very small percentage of American infrastructure projects are currently financed through PPPs.

Does the fact that PPPs have not become a core mechanism in American public procurement financing until recently mean that PPPs are indeed a new development in the US? No. Not necessarily. PPPs (even those without a financing component) can be in many ways considered an "evolutionary" development within privatization practices. Indeed, there is quite a large philosophical and operational overlap between privatization and PPPs. During the 1980s, the US, alongside the United Kingdom, was a leader and promoter of privatization. The one major difference between UK and US was the fact that unlike the UK, the US didn't really have a huge base for privatization. The American economy was already fairly lean and there weren't many national assets that could have been privatized. Given the fact that PPPs have derived from privatization, it is then perhaps not fully accurate to describe PPPs as something that it is entirely new within American public procurement. To this extent, while the US can be described as a slow adopter, it certainly isn't a late one.

What Makes PPPs Different (Better?) than "Traditional" Procurement?

There's nothing "magical" about PPPs. As contractual agreements, they do not provide the proverbial "silver bullet" for the all the challenges in public procurement. Despite their exotic composition, PPPs are not guaranteed to yield better results than traditional procurement. Although PPPs are surely not the answer for all challenges in public procurement, they have been suggested as innovative and flexible financing structures that can lead to improved risk management, enhanced quality and cost efficiencies (Savas, 2000). In theory, and when established and managed correctly, PPPs do offer a number of excellent opportunities, which, if exploited correctly, can lead to notable benefits for the public sector. Some of the more commonly associated benefits of PPPs are:

1. ***Leveraging private sector expertise and technical innovation*** – A PPP arrangement provides the public sector with the opportunity to take advantage of private sector expertise and technical developments.
2. ***Decreasing cost of procurement by increasing opportunities for production efficiencies and increasing possibility of economies of scale*** – Within a well-designed PPP, the partners are selected in such a manner that their objectives are synergistically aligned. Although, due to somewhat different reasons, all parties involved are highly interested in the success of the project. The private partner is just as motivated to realize enhanced quality and reduced cost as the public partner.
3. ***Access to otherwise inaccessible financing sources and the ability to move some of the public expenditure off-budget*** – PPPs represent innovative financing mechanisms. They allow the public sector to postpone payments or leverage future revenues for purposes of fulfilling present day demands. Along similar lines, public sector partners can gain, through their private sector partners, access to new or creative financing options.
4. ***Increasing governmental capacity*** – The Great Recession and the constant budget cuts of the past two decades have significantly weakened and reduced governmental capacity to address public needs. This is especially true for high cost projects. Within this context, PPPs can act as useful and effective avenues for continuing to provide high quality public services, in spite of decreasing capacities.
5. ***Reduced politicization of decision-making*** – It is now widely accepted that public administration has become increasingly politicized. This makes decisive and timely action on high dollar projects

extremely complicated. Given the latter and given the fact that a PPP arrangement shifts much of the decision making to the private partner, this allows the design and construction processes to bypass much of the political maneuvering from which the project would have otherwise suffered had the project been left entirely within the scope of the public agency. Furthermore, PPPs offer governments a very useful tool to finance projects without legally acquiring debt (a PPP also allows local governments to bypass voter approval, which would be required under other forms of financing). This, however, also means that government can sidestep traditional debt monitoring mechanisms as well.

6. ***Sharing of responsibility with the private or nonprofit partners –*** PPPs (mostly the more complex types such as DBOM or DBFOM) place a significant amount of responsibility on the private or nonprofit partners beyond the completion of the construction or delivery of a certain project. Sharing the responsibility for a given project reduces the pressures imposed on the public agency while simultaneously acting as a quality control mechanism.
7. ***PPP are financing mechanisms that allow better risk and cost allocations*** – PPPs allow the public sector to share some of the risk (never in its entirety) associated with financing a given project. Although, on many occasions, this benefit is overstated (either due to political convenience or due to a lack of knowledge) – this remains an important benefit of a PPP.
8. ***The "far and above" commitment from the private or nonprofit partner –*** A carefully designed PPP (specifically in terms of selection of partners) can ensure a certain level of synergy within operations. The partners have a common interest in seeing the project succeed, hence being committed to the arrangement "far beyond" the expectation of any standard contractual relationship.

Considering these possible benefits, it is not surprising, then, why PPPs have been found to be extremely appealing by numerous governments around the globe. Indeed, such partnerships provide an effective framework through which governments can access a more diversified pool of financing tools, tap into private sector expertise and technical capacity, and share responsibility with nonprofit and private partners. These are also the reasons why one should expect PPPs to become a much more common financing option employed in public procurement in the US. Along similar lines, it is perhaps appropriate to expect that with time, as institutional expertise and capacities grow, such financing choices will become viable options, not just for large scale projects, but also for medium and small size ones.

What is Value for Money Analysis?

As common wisdom would suggest, evaluating the merits of different PPP proposals would indeed be a highly challenging task. Currently, there is no fully accepted evaluation metric for objectively assessing a PPP proposal. Most agencies or governments have their own approaches for deciding whether to engage in a traditional procurement or in a PPP. Their methodologies have been developed over time and they reflect their particular needs and visions for the specific project. Value for Money (VfM) analysis is at this time the most common (and popular) evaluation approach undertaken for comparing PPP procurement to traditional procurement (Public Sector Comparator). It is an approach that attempts to estimate/maximize all benefits (measurable and also non-measurable to the extent possible) to the public sector associated with engaging in a specific partnership. The best value is determined through a careful analysis of aggregate costs of the PPP that considers factors such as overall risks, project quality, timing and lifecycle costs. A rigorous VfM analysis is typically able to reveal with a certain degree of accuracy whether or not a PPP is the best procurement option for a given project.

Methodologically, VfM, although technically complex, is rather intuitive. The public partner develops several procurement models (e.g., Public Sector Comparator, DB, DBOM, DBFOM) and then attempts to forecast (through econometric modeling or mathematical algorithms such as Monte Carlo Simulations) the estimated costs and risks under each model. Obviously, assumptions and base models will vary on a case-by-case basis (as will statistical approaches being employed). The timing of this

The Dangers of Optimistic Bias: North East Solid Waste Committee (NESWC)

NESWC was a consortium of 23 Massachusetts towns and cities. It was formed in 1985 around a long-term public-private partnership for solid waste management. The state's consultants, based on the assumption that oil prices would continue to steadily rise, assured that the project would lead to long-term savings. Guided by the projections received from the state, these municipalities signed a 20-year contract with a private company for the design, financing, construction and operation of a solid waste facility (Werkman & Westerling, 2000). As part of the agreement, the 23 communities were contractually required to meet a minimum tonnage of waste. NESWC was assured that the disposal fees would be recovered through the electric power revenues generated by the facility. Not only would the fees be offset, they were promised, but over time, the PPP would actually yield a net income (Werkman & Westerling, 2000).

These savings were never realized. The forecasts developed by the state's consultants were grounded in overly-optimistic assumptions. Oil prices did not grow at the rate assumed in their projections. For almost the entire length of the contract, NESWC ended up paying disposal fees more than double the rates for the region (Werkman & Westerling, 2000). In fact, because of the contractual obligation to meet minimum tonnage, the 23 communities were paying, so to speak, to dispose of trash that did not exist.

analysis is also not rigid. It is based on the institutional preferences as well as previous experiences. As a result, it can be conducted both before and after bids are received.

The success of the VfM analysis hinges in large part on the ability to make "apples to apples" comparisons among different models being considered (hence the criticality of making appropriate and realistic assumptions). The main strength of the VfM approach is that, if done correctly, it can provide a very detailed comparison of different procurement options. It also provides both the public and the private partners with a much needed opportunity to genuinely evaluate the degree of risk to which they are exposing themselves. At the same time, however, one should not be carried away by the rigor and "objectivity" associated with VfM analysis. As a technique, it remains a demanding approach and its sophisticated forecasting models do not guarantee success. The models being employed are only as reliable as the assumptions on which they are constructed and only as useful as their ability to make likes-for-likes comparisons.

Cautions

As it is the case for most things in public procurement and in public administration in general – one should not be "carried away" by the seemingly infinite possibilities of PPPs. Such partnerships, while highly promising, in essence, remain extremely complicated contractual agreements. This can hardly be denied. Any complex contractual agreement, however, offers ample opportunities for things to "go wrong." PPPs are no exceptions. Due to their long-term nature, the consequences of a badly designed PPP can be disastrous (Bloomfield, 2006). In this sense, there are several important reasons why agencies should be cautious and thorough in their analysis, and, above all, remain realistic in their expectations when considering PPP arrangements.

First, and the most significant misconception associated with PPPs, is the belief that they represent new funds. That's certainly not the case. A PPP is a financing mechanism. It is neither "new" nor "free" money. A private partner will seek to ensure adequate rates of return on investments. Even under fully privately financed PPPs, the funding for the project will come directly out of the fees paid by public users. In this sense, the financing of the project is transferred off the budget to users. PPPs allow governments to engage in long-term, high cost projects without legally acquiring debt, but that does not mean that the project will not cost the government anything. Quite the opposite. Considering a high financing markup, it could actually cost more, significantly more. The fact that the expense is not legally labeled as debt does not change the fact that for all intended purposes the cost of project is actual debt/financial obligation assumed by government. Without a doubt, there is no such thing as a free lunch – and although many might want us to believe otherwise, PPPs are certainly not an exception to this adage.

The most significant misconception associated with PPPs is the belief that they represent new funds. That's not necessarily the case. A PPP is a financing mechanism. It is neither "new" nor "free" money.

In fact, it's not uncommon for PPPs to become an extremely costly financing options. Public procurement specialists should not allow themselves to be distracted by unsupported claims regarding the apparent "endless" benefits of a PPP. There is a great danger in failing to scrutinize the often misleading information provided by PPP sponsors and consultants. In our discussions, we should conceptualize PPPs first and foremost as risk and revenue sharing arrangements for the purpose of completing projects that pursue public interest and not as new moneys. Procurement specialists should also stand ready to ask the tough questions such as – what is the real cost of financing the project and is any investment risk being shared at all?

Second, despite all the enthusiasm surrounding PPPs, they have not been around for more than a few decades. Given that they are long-term projects and they can be evaluated only years (decades) after their completion, there is currently preciously little empirical evidence about their long-term effectiveness. Scholars have suggested that much of the rhetoric and empirical studies in the area suffer from an "optimism bias" (Mott MacDonald, 2002; Raisbeck, Duffield, & Xu, 2010). The limited research available (mostly for international PPPs) suggests that PPPs can indeed become rather effective when compared to traditional procurement (Haskins, Gale, & Kelly, 2002; Mott MacDonald, 2002; NOA, 2009). Raisbeck et al. (2010), for instance, have determined that Australian PPPs were 30.8% more cost efficient (from project inception) and were completed 3.4% ahead of time (with traditional procurement projects completed 23.5% behind time); with PPP benefits increasing with growing project complexity and size. Still, while the results from some experiences are encouraging, the overall track record of PPPs (both domestically and internationally) is still for the most part mixed. For example, Blanc-Brude, Goldsmith and Välilä (2006) have determined that cost of a road to the public sector was 24% higher in a PPP than in traditional public procurement. It still remains unclear whether PPPs are indeed effective risk management mechanisms or whether they are in any way more cost effective than traditional procurement (Hodge & Greve, 2007).

Third, since much of the work is frontloaded, most PPPs require the public partner to possess important levels of knowhow. Long-term contracts with private companies do not manage themselves; they require "aggressive" management and monitoring by the government (Kettl, 1993). Any agency engaging in PPPs will quickly learn that it needs to have a high degree of expertise and institutional knowledge in terms of quality control, policy formulation and technical specifications before it can successfully establish effective PPP agreements. The public agency engaging in a PPP has to fully comprehend all the details and complexity of the arrangement to which it is signing up (in terms of standards, quality, levels of operations,

A FAILED PPP: LONDON UNDERGROUND

The London Underground PPP transferred the rehabilitation and maintenance of the London underground infrastructure to private sector consortiums. This was a very complex DBFOM project made up of three separate, yet interdependent, PPPs. Metronet consortium was selected for two PPPs and Tube Lines consortium won the other PPP. Apart from private sector financing, the PPPs were also financed through governmental grants. It was envisioned as a 30-year contractual engagement. Yet, by 2010, only six years into the contractual agreement, the consortiums failed and the infrastructure was returned under government control. The PPP failure was triggered by the bankruptcy of the two PPPs controlled by Metronet. The latter was estimated to cost the taxpayers approximately £4.1 (≈ $6.3 billion) in losses (UKNAO, 2009).

This particular PPP project was controversial from the very beginning. Although, the British government strongly advocated for the project on the basis that the London Underground, as a governmental agency, did not have, due to budget cuts, the institutional capacity to undertake infrastructure improvements - many remained skeptical about the adequacy of a PPP arrangement and if it indeed provided efficiencies. The VfM analysis for the project, for instance, was questioned in terms of its accuracy and rigor. It also wasn't clear whether government truly believed that a PPP was the most effective solution or simply attempted to shift some of the financing and risk associated with the infrastructure off governmental books.
The failure of the project was primarily due to: (1) overly optimistic projections/unrealistic expectations; (2) lack of comprehensive understanding of all underlying variables involved in the project; (3) consortium internal mismanagement; (2) ineffective governmental control; (3) poor comprehension of the true cost of financing; and (5) incomplete/poorly underwritten contracts.

maintenance, etc.), but also to estimate for all possible scenarios. Such types of forecasting and analysis are not easy, especially for agencies with limited experience. It's not uncommon for public agencies and governments to simply lack the necessary institutional knowledge and technical understanding to be able to design long-term and operational contractual agreements. Many states (e.g., California, Colorado, Georgia, Florida, Georgia, Oregon, Virginia, Washington), which initially "saw" PPPs as convenient means of moving high infrastructure expenditures off budget, have quickly realized how difficult it is to establish effective PPPs. To this extent, the transaction costs associated with developing a PPP can typically end up being much higher than for a traditional procurement. Depending on the project, the larger development cost might simply not be justified.

Furthermore, within such transactions, there is a great concern regarding informational asymmetries, especially in terms of investment risk distribution, with private sector companies often having the upper hand. Public agencies, especially within high dollar projects, do not have the luxury of assuming the existence of goodwill. This is by no means trivial. Forrer, Kee & Zhang (2002), for instance, comparing UK and US PPPs, concluded that in the US many PPPs were reached without undertaking competitive bidding and a number of these contractual agreements actual shifted the full financing and investment risk entirely to the public sector (hence, defying the very logic of engaging in a PPP in the first place). Following a similar line of argument, an agency that becomes overly reliant on PPPs can lose its expertise and institutional capacity to respond in case of a partnership failure.

Fourth, it is important that decision-makers keep sight of the fact that PPPs are by their nature complicated arrangements, whose reach typically expands far beyond the jurisdictional space of one single agency. Many PPPs are contingent on inter-agency and inter-governmental collaboration and decision making. This adds a significant degree of complexity to the entire process. This also requires project sponsors to become astute navigators of "political halls." Although once established, PPPs remove a great degree of political maneuvering from operational decision making, the design and establishment of a PPP itself can become highly politicized.

Fifth, quite paradoxically, in a weak PPP market, using PPPs to finance public projects can be detrimental to competition. This is particularly true for cases involving financing. Projects that impose on the incoming partner a significant upfront financial (financing or proposal development costs) or construction burden will significantly limit the number of qualified candidates. Relatively fewer companies will be able to support such upfront costs. This will surely lead to less competition. Along similar lines, some large scale and highly complex PPPs might become possible only by making an exception to competitive procurement and designing these arrangements on a sole-source basis. The most concerning issue, however, is related to the dangers associated with a given partner becoming an "incumbent," which can serve as a powerful deterrent to competition. Since PPPs are long-term projects, a company or consortium that has been successful in engaging in a PPP with a specific agency or government might over time develop sufficient inside information and political connections to be able to "fend off" threats from qualified competitors in future. Many, otherwise interested companies, might forego submitting a proposal based on the fact that the odds of selection might be stacked against them. While the latter is not necessarily true, at least not always – the effects of such perceptions are quite consequential for competition levels. With time, this might also become a self-reinforcing vicious cycle, leading to little de facto competition being present during the proposal stage.

A final caution is a declaration of the obvious, but which nevertheless warrants repeating - the success of any PPP project is in large part dependent on the "mindset" of the parties involved. It is critical that the private or nonprofit partners approach the PPP relationship with a genuine sense of simultaneous commitment to collaboration and to public interest. PPP agreements are long-term and complex, having many moving variables – as a result, partners must develop and share clear understandings regarding their roles, responsibilities, overall expectations, risks, commitments and objectives. It is hard to envision the possibility of establishing a successful PPP if, at any point in time, one of the partners is focused solely on short-term interests and is not willing to assume any of the risk associated with the project. Within the context of a PPP, mutual trust becomes indispensable. Pursuing short-term profits and lacking authentic commitment would jeopardize the partnership and defy the very reason for engaging in PPPs in the first

place. In this sense, PPPs must become much more than mere contractual agreements. A PPP that does not lead to synergetic gains can hardly be described as a PPP in normative terms. This, however, might also be the most significant challenge in terms of establishing effective PPPs. As procurement specialists, we always have to remain mindful of the fact that private sector companies cannot survive by focusing on public interest (Cooper, 2003). While the private partners need not focus solely on public interest, the latter surely has to become one of their foci should they decide to engage in a PPP.

In sum, anytime an agency is considering PPP arrangements, it should realize that a PPP does not have any inherent safeguards built in – it's just as prone to error and likely to fail as any other type of contractual agreement. There's nothing "magical" about PPPs. Their establishment and operation should be treated with the utmost care. To fully exploit the benefits of a PPP, the latter needs to be effectively designed. Only when correctly and carefully operationalized (especially in terms of a comprehensive understanding of all the risks that are involved), an agency or a government can expect to enjoy the full benefits of such agreements. Any major contractual shortcomings can become extremely damaging. As history has shown, PPP failures have typically led to extensive financial losses to the public sector.

What Are the Main Barriers in Establishing Functional and Effective PPPs?

PPPs have yet to become a predominant financing approach for public procurement in US. This is particularly true for local level procurement. While state and federal levels have been quite aggressive and determined in the promotion of PPPs (not just for infrastructure projects), procurement's use of PPPs at the local levels has lagged significantly. There are numerous and diverse reasons behind this condition. Most importantly, due to the fact that PPPs are rather complex contractual agreements, many procurement offices simply do not have the necessary expertise. Furthermore, some states have not necessarily been promoting PPPs, nor have they developed a supportive legislative environment. Along similar lines, the market for PPPs appears to be rather fragmented, both in terms of information as well as expertise. There also seems to be a great deal of ambiguity and confusion. The latter is primarily due by an incongruence between the politically appealing and convenient narrative and the reality in the field. Finally, the establishment and management of PPPs is fairly expensive and risky. Many agencies are simply unwilling to assume that risk.

In order to evaluate the degree of use of PPPs within local level governments for the purposes of this report, the members of California Association of Public Procurement Officials (CAPPO) were asked to complete a survey (the complete instrument is provided in Appendix A). At the time of the survey, CAPPO had approximately 1,200 active members[5]. Table 3 provides the main reasons, according to CAPPO members, why PPPs have not become more prevalent at the state and local levels.

It appears that the majority of procurement specialists converge on four critical reasons behind the low growth in PPP practices: (1) lack of expertise; (2) PPP complexity; (3) lack of institutionalization; and (4) high transaction costs. These indeed appear to be rather significant obstacles. These results also appear to confirm expectations that are already present within the literature.

Table 3. Main Barriers to PPP Development

Reason	Answers	Percentage[6]
Lack of expertise on establishing and managing such partnerships.	*37*	*88.10%*
Such partnerships are risky and highly complex.	*34*	*80.95%*
Lack of institutional support/promotion of such partnerships.	*32*	*76.19%*

[5] Only 42 procurement professionals responded to the invitation to participate in this research. The majority (36) indicated that their agencies did not engage in any form of PP/NPs.

[6] The percentages will not add up to 100% due to the fact that respondents were able to select as many or as few of the choices presented to them.

High transaction cost (e.g., consulting fees).	***28***	***66.67%***
Lack of supporting legislation/incompatibility between PPP practices and existent procurement ordinances.	13	30.95%
Such partnerships are appropriate mostly for infrastructure projects.	12	28.57%
Lack of political support.	10	23.81%
Such partnerships are typically high dollar contracts which go beyond the scope of the agency's responsibilities.	7	16.67%
Other	3	7.14%

Best Practices and Questions to Keep in Mind

Although no two PPP arrangements will ever be the same and there are no infallible truths in their management – there still are a number of approaches and perspectives (best practices) that appear to be particularly fitting for operationalizing PPP arrangements. There are also a number of questions that should be kept in mind and asked throughout the process.

Organizational Level PPP Design Best Practices:

- ***Conceptualize PPPs as financing mechanisms first and everything else second*** – Does everyone (elected officials in particular) understand that a PPP does not bring in “new” or “free” money? Are decision makers aware that a PPP can “default”?
- ***Identify internal capacity and competency gaps*** – Does the agency have any technical or legal expertise in matters of PPP? Should that expertise be pursued in-house or outsourced? What are the requirements in terms of public participation and disclosure?
- ***Assemble and “coach” a PPP-dedicated team*** – Is this an internally or externally led team? Does the team have the institutional power to present and make the tough decision? Is it reasonable to expect that the team will be autonomous of political interference?
- ***Conduct an “honest” analysis of rationale behind engaging in a PPP*** – Is the PPP being considered for the “right” reasons? Is the project justifiable (from a public interest perspective)? Is the market demand sufficiently strong to justify the revenue projections? Has the process been transparent?
- ***Scan the “friendliness” of the legal environment*** – Does the state provide PPP supporting legislation? Does the agency have legal authority to engage in a PPP?
- ***Delineate all valid and feasible alternatives*** – Would a PPP approach enhance or discourage competition? Should the agency actively advocate and promote interest from private organizations? Is a PPP the only financing option available?
- ***Clearly define the targeted outcomes and the scope of the desired project*** – What is the agency really trying to achieve? What are the long-terms impacts being sought?
- ***Delineate clear performance indicators and performance management frameworks*** – How would one know if the project was successful? How will progress be evaluated? Are the stated outcomes measurable?
- ***Critically review the alignment and consistency of the stated outcomes and scope with the agency’s mandates and strategic plan*** – Are the stated outcomes for the project in conflict with the strategic scope of the agency actions? Will a PPP arrangement take the agency outside of its mandated duties?
- ***Identify and pursue avenues for the development of VfM analysis expertise*** – Is there internal VfM expertise? How can that expertise be developed and maintained? What are the external sources (state or federal level) that can be consulted?
- ***Seek guidance and consultation from other agencies or states (e.g., California, Michigan, Virginia) or federal level dedicated PPP Units or Task Forces*** – Have other agencies recently engaged in similar type projects? What are the mistakes that other agencies have made on similar projects? How successful have others been in establishing and managing similar types of contractual arrangements?

- ***Complete a fiscal/economic/policy impact analysis*** – What are the fiscal, economic and policy implications and risks of a PPP? Is the PPP reasonable, feasible and justifiable from an economic perspective?
- ***Complete an opportunity cost analysis*** – What are the trade-offs involved? What other projects or opportunities are being forgone by engaging in the PPP?
- ***Complete a feasibility analysis*** – Have the political and recession risks been accounted for? Is there enough political support for the project? Does the agency have the expertise to successfully manage the partnership?
- ***Complete a life-cycle cost analysis*** – Have delay costs been considered? How do the projections provided by the private partners/consultants stack up against agency estimations?
- ***Complete a revenue analysis*** – Is the revenue stream sensitive to economic downturns? What are the major risks to revenue stability? Is the revenue risk shared or does it fall in its entirety on the public partner?
- ***Identify and evaluate all sources of risk and estimate their financial impact*** –What is the probability and impact of possible cost overruns? What are some other possible future risks (e.g., legal, environmental, etc.)?
- ***Assess the value of the PPP model (desirably through VfM analysis) against at least two other financing/procurement options (e.g., pay-as-you-go financing, public debt financing)*** – What are the main reasons why the alternatives are not considered more seriously? Is political rationale the main driver behind the perceived value of the PPP arrangement?
- ***Complete an independent audit/third party review of the final assessment*** – Are the assumptions (e.g., discount rates, revenue levels) being made realistic? Has the analysis accounted for most major risk sources? Was any evident bias allowed to enter the equation? Have consultants or project sponsors been overly optimistic in their estimates or misleading in their assumptions?
- ***Assess the understanding and the commitment of the selected partner/consortium to common goals, shared responsibilities and project objectives*** – Is there sufficient reason or evidence to believe that the private or nonprofit partner's interests in the project go beyond "just money"? Is there serious friction between partners' stated visions and goals for the project?
- ***Strive to be as specific as possible in regards to contractual terms and expectations, avoid ambiguous language that offers ample room for interpretation*** – Is everyone clear on their expectations? Is the structure/design of the PPP consistent with the scope and outcomes of the project?
- ***Establish, communicate and agree upon clear and enforceable monitoring indicators, activities, actions and outcomes*** – How will performance be evaluated and monitored? Will excellent/poor performance be rewarded/penalized?
- ***Avoid incomplete contracts*** – Does the contract contain any significant gaps? Have all scenarios (e.g., bankruptcy, natural disaster) been considered?
- ***Build in contractual flexibility*** – Can the public entity intervene/change the terms of the contract if the PPP is failing or if faced with unforeseen circumstances? Can the responsibilities of the partners be restricted or extended during the term of the contract?

Policy Level PPP Process Best Practices:

- ***Develop PPP offices (or assign dedicated personnel) for the purpose of institutionalizing PPP establishment and usage*** – Given the complex nature of PPPs, it is imperative that clear nodes of expertise are developed. At least in the early stages of knowledge development, there is much to be gained from centralizing the decision making process. Numerous countries around the world, including the US, have chosen to develop what has become known as PPP units. These entities are tasked with promoting PPPs through policy expertise, consulting and quality control.
- ***Nurture a culture of learning and procurement collaboration across agencies and states*** – The experience of leaders in PPPs has shown that the successful design and establishment of PPP

arrangement hinges on collaborative efforts. While agencies can attempt to complete a PPP agreement on their own, they are much more likely to avoid errors if they seek guidance and assistance from other similar agencies, which have previously successfully (or unsuccessfully) engaged in a PPP arrangement.

- ***Promote PPPs by creating supportive/enabling legislation at the state and federal levels*** – It's difficult to envision PPPs becoming conventional mechanisms within American public procurement without a supportive legislative environment. In fact, if that is to happen, states and the federal government in particular should assume a leadership role by promoting PPPs and providing enabling and supportive mechanisms (such as PPP Units).
- ***Establish local, state and federal training opportunities to assist with the development of technical expertise and capacity*** – As it stands, the bulk of procurement specialists are only marginally aware of PPPs as a financing option. Most importantly, they have rarely received any formal training in working with PPP contracts. To this extent, there is an obvious and critical need for developing education opportunities for procurement specialists.
- ***Promote a culture of outcome/performance-based procurement*** – PPP arrangements are philosophically based on the idea of performance-driven procurement. Although, performance-based contractual procurement (and management in general) is becoming increasingly accepted within public administration, public procurement practices are somewhat lagging behind. As outcome/performance-based procurement becomes prevalent, it likely will increase the probability of PPPs becoming a more common procurement practice.
- ***Standardize, whenever possible and appropriate, PPP procurement practices*** – Like PPPs, the practices associated with their design and implementation are quite diverse. This diversity and ambiguity is not "healthy" for the PPP market. It introduces a lot of uncertainty and confusion. Standardizing PPP practices, in cases when it is logical, would significantly help development of the PPP market.
- ***Educate stakeholders on the benefits and risks of PPP procurement*** – It's not reasonable to expect PPPs to become a staple of procurement practices unless procurement specialists and potential stakeholders are aware of their benefits. The more informed potential stakeholders become, the more likely it is for a PPP to be considered as a viable financing option. We also, however, are obligated to remain honest and transparent regarding the true risks and real costs of such arrangements.
- ***Identify, maintain and reward long-term relationships with private and nonprofit partners that have a track record of excellence*** – The main assumption regarding PPPs, which mostly remains implicit and is rarely stated, is the fact that in a PPP agreement, the private and nonprofit parties are committed to going above and beyond their contractual obligations. This assumption, however, is very difficult to fulfill. "Genuine" partners might not come along that often. When such partners are identified they should be "cherished." The public sector has a lot to gain from establishing a set of trusted private partners that have shown that they have embraced public interest as a major operational objective. Here, again, we have to remain conscious of the fact that there is an important tradeoff between establishing long-term partners (incumbents) and promoting competitive procurement.

Conclusions

The main purpose of this report is to provide a comprehensive discussion of PP/NP arrangements. Such types of partnerships are becoming increasingly common throughout the developed world. And while the rhetoric surrounding their development has been overwhelmingly positive – in reality, there is much confusion. There is also very little empirical evidence to reference in terms of their effectiveness, benefits and risks. The rigorous empirical accounts that have been developed – have produced rather mixed results. In the next decade, as many of the early projects will end, there will much more evidence

available to judge the effectiveness of PP/NPs as financing mechanisms. For now, however, it is important that public procurement specialists remain realistic about the possibilities of PP/NPs and proceed with caution when advocating or establishing such contractual relationships. It's critical to remember that such contracts are very complex and the consequences of badly underwritten agreements can be disastrous. It is also fundamental that public procurement specialists scrutinize in detail and with a healthy level of skepticism, the sponsors, consultants and publications that hail PPPs as safe partnerships that are guaranteed to yield large benefits to the public sector.

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Appendix A

1. **Does your agency engage in public-private and/or nonprofit-partnerships (PP/NPs)?***

2. **What general type of partnership does your agency engage in?**
   - Infrastructure
   - Policy
   - Service Provision
   - Capacity Building

- Economic Development
- Other (please specify)

3. What type of an infrastructure PPP does your agency engage in? (please check all that apply)
- Design-Build
- Design-Build-Operate-Maintain
- Design-Build-Finance
- Design-Build-Finance-Operate-Maintain
- Other (please specify)

4. How effective do you find PP/NPs to be as a procurement mechanism/tool/framework?
- Very Ineffective
- Ineffective
- Somewhat Ineffective
- Neither Effective nor Ineffective
- Somewhat Effective
- Effective
- Very Effective

5. Please provide a short description of one or more PP/NPs that your agency is currently engaged in.

6. Based on your experience, please identify what you find to be the "best practices" in terms of establishing and managing PP/NPs.

7. Which do you think are the most important benefits associated with PP/NPs? (please check all that apply)
- Cost savings/efficiencies.
- Improved delivery times.
- Enhanced quality.
- Increased accountability of the private/nonprofit partner.
- Other (please specify)

8. What do you think are the main reasons why your agency or other agencies do not engage in PP/NPs or make use of PP/NP arrangements more often? (please check all that apply)
- Lack of expertise on establishing and managing such partnerships.
- Lack of institutional support/promotion of such partnerships.
- Such partnerships are appropriate mostly for infrastructure projects.
- Lack of supporting legislation/incompatibility between PPP practices and existent procurement ordinances.
- Such partnerships are typically high dollar contracts which go beyond the scope of the agency's responsibilities.
- Such partnerships are risky and highly complex.
- Lack of political support.
- High transaction cost (e.g., consulting fees).
- Other (please, specify)

*This was a "skip-logic" question. If respondents indicated that their agencies did not engage in PP/NPs then they were directed to the last question of the survey.