



# Public-Private Partnerships

Realising better water infrastructure with private finance

Government and private enterprises sometimes form Public-Private Partnerships (PPPs) to collaborate on infrastructure projects. Infrastructure is essential to a country's economic and social development, and global infrastructural demands are consequently huge. Indeed, the demand far outstrips the budgetary resources of governments around the world. That has led to the rise of PPPs and other innovative financing solutions. This delivers better end products at lower cost and will fill part of the needed and required funding. Due to climate change a particular need arises for innovation on financing water infrastructure. The current challenge is to develop PPP models suitable for the complex water domain, with its many interdependencies.



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### What's the issue?

Global demand for new infrastructure is huge. Indeed, the demand far outstrips the budgetary resources of governments and development funds around the world. The United Nations Conference on Trade and Development (UNCTAD) has estimated the annual global shortfall at no less than 2,500 billion US dollars.

That has led to the rise of Public-Private Partnerships (PPPs), in which governments and private enterprises collaborate on infrastructure projects for extended periods. The aim is to secure better end products at lower cost. Responsibilities and risks are shared appropriately between the public and private partners, with the private partner providing some of the capital.

The Dutch government uses PPP as its main procurement system for national infrastructure, including water infrastructure. With the second best infrastructure of the world, according to the World Economic forum, this paid off. Our knowledge and experience in PPP schemes are used to contribute to the attainment of the UN's Sustainable Development Goals (SDGs). And also to enable the provision of safe and clean drinking water for people in delta areas. Initiatives of this kind are being used to realise the ambition of the International WaterCentre

### Investing in infrastructure

PPPs and associated innovative financing solutions are a globally tried and tested vehicle for enabling the private sector to invest in essential (water) infrastructure. Private equity funds, investment funds, pension funds and banks are thus able to invest sums that are typically anything from 200 million to ten billion US dollars.

Investors are motivated by the opportunity to secure a return: in other words, to recover their investment, plus a profit. Infrastructure projects (roads, schools, hospitals, water treatment plants, energy supply systems, etc.) are perceived to be reliable and secure investments, because they have a long life expectancy and tend to enjoy broad political support. Infrastructure is acknowledged as essential and as contributing to the development of a country. The return that investors get on their capital comes either from people paying to use the infrastructure (as with a toll road) or from the government paying for the project. If the government pays, it usually does so in instalments, over the lifetime of the infrastructure in question, as with a mortgage. In practice, a combination of user payments and government payments often provides the investor's return.

However, the rationale for PPPs is not exclusively financial. They increase private sector involvement, promoting effectiveness, innovation, and continuous servicing throughout the lifetime of the infrastructure. In some OECD countries, for example, leaking pipes lead to the loss of as much as 50 to 70 per cent of the drinking water. In other words, out of every litre of drinking water produced, only one glassful ends up in consumers' homes. The private sector often has the knowledge and the financial means to address such problems, whereas a government would be limited by budgetary constraints.

### PPPs and water infrastructure

Although PPPs have been used successfully for many types of infrastructure, they have not yet entered general use for water infrastructure. Water treatment plants and drinking water plants may lend themselves to PPPs, but more generalised use of the PPP model is harder to realise. There are three main reasons for that:

- The "user pays" principle: earnings models based on payment for use are often inappropriate, because in many countries people are unused to paying directly for water and/or unwilling to do so. Furthermore, the beneficiaries of structures such as sea dykes are often not "direct users" as such.
- Investment model: the capital cost of a water infrastructure project tends to be very high, necessitating substantial co-investment by government. In many cases, that is not possible.
- Administrative complexity: water infrastructure often fulfils multiple functions. A river, for example, may be a navigation route and a source of irrigation water, drinking water, and energy. Many rivers are also boundaries between countries, provinces, or tribes. The associated political and administrative complexities are a deterrent to investors.

### Not why, but how

Despite the difficulties, it is important to develop PPPs for water infrastructure, so that more can be achieved for less money. The challenge is to devise private investment models compatible with the water domain. This will require innovation and new alliances. It may also be necessary to compromise between the most comprehensive solutions and the most feasible and fundable solutions.



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### **More information and contact**

Public collaboration on PPPs:  
[www.government.nl/topics/  
public-private-partnership-ppp-in-central-government](http://www.government.nl/topics/public-private-partnership-ppp-in-central-government)

Private collaboration on PPPs:  
[www.ppsnetwork.nl/frontpage](http://www.ppsnetwork.nl/frontpage)

Multi-party collaboration (Netherlands Branch):  
[www.ipfa.org](http://www.ipfa.org)

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