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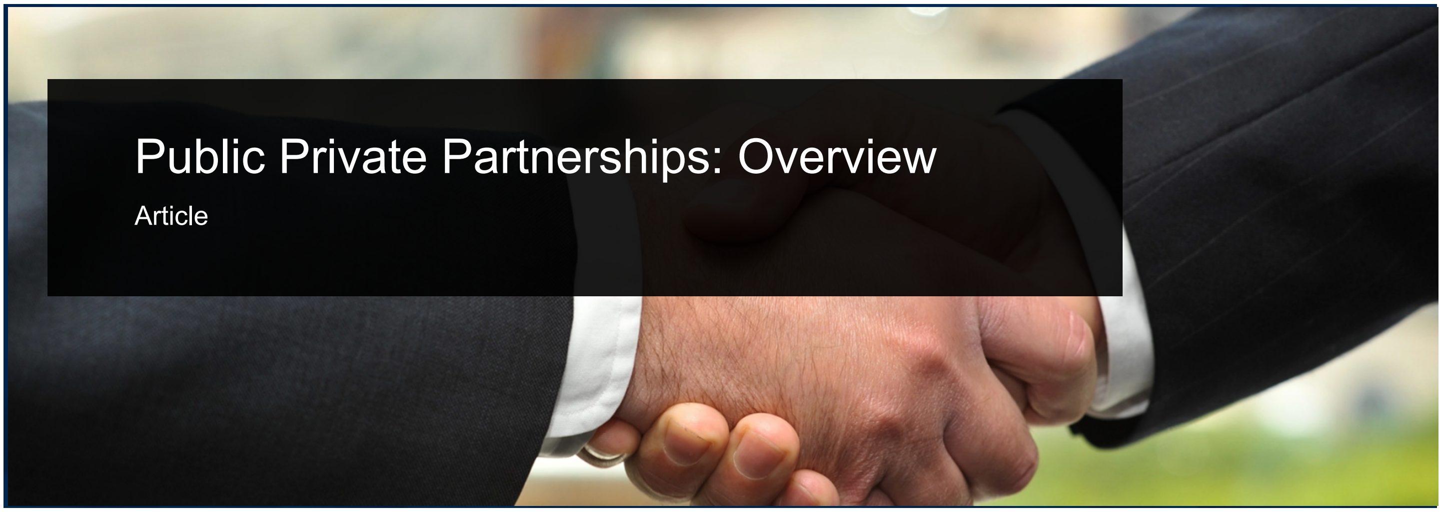
Public Private Partnerships: Overview

Article



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Even though there is no unanimously recognised definition of a public-private partnership (PPP or P3), global market participants normally use these this term and its two acronyms to refer to a specialised model of project delivery where a governmental institution contracts with a private party to deliver a fully integrated set of works and services with respect to a public infrastructure asset. The following contractual figures typically fall under the definition of PPP: design-build, design-build-finance, design-build-finance-operate, design-build-operate and maintain, and other variations of the theme. For many years the World Bank, the International Finance Corporation and regional development institutions (such as the Inter-American Development Bank or the European Bank of Economic Reconstruction and Development) have promoted the use of PPPs as an alternative to traditional project delivery methods. Bolstered by these efforts and by the successful implementation of the model in many states, the use of PPPs has continued to grow globally, especially since the turn of the century. This growth has not, however, been uniform. Developed countries have a larger share of the global market; developing nations have seen bigger challenges to implementing the model, although the World Bank and other multilateral organisations provide funding, information and training to governments designed to facilitate the implementation of PPPs. The transportation, energy generation, storage and distribution, telecommunications (especially broadband) and social infrastructure sectors appear to be solid growth areas for PPPs.

There is no shortage of available debt and equity capital, buoyed in part by strong fund raising for infrastructure globally. Not surprisingly, there are more funds under deployment, and available for deployment, in OECD countries. There does not appear to be a lack of interest for infrastructure investment funds for developing countries, but rather a lack of attractive projects. On the debt side growth continues in the use of project bonds as well as bank debt,

Related People

Fernando J. Rodriguez Marin
Partner
NEW YORK
+1.212.508.6139
fernando.rodriguez@bracewell.com

Nicolai J. Sarad
Partner
NEW YORK
+1.212.508.6174
nicolai.sarad@bracewell.com

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and increasingly local banks are creating project finance teams, and joining international syndicates of lenders in expanding their exposure to PPP debt.

PPPs are not, however, immune from market changes and financial crisis. The global economic turmoil caused by the covid-19 pandemic that started in 2020 has had a significant impact on the global PPP market. According to the World Bank's Private Participation in Infrastructure report for 2020, infrastructure investment commitments in 2020 in PPI countries were down 52 per cent from 2019 levels. Procurements for greenfield projects were put on hold or cancelled given the uncertain impact of the economic slowdown on public budgets, and employment levels. Data show that traffic and ridership suffered a significant dip, impacting projections and modelling. While in many countries, especially the developed nations, recovery appears to be strong, many developing nations are still suffering the pandemic's effect as the deployment of widespread vaccination continues to be slow. To the extent that the global fight against the pandemic succeeds and the resulting economic recovery becomes more widespread, the ever increasing amount of capital looking for long-term returns, coupled with global infrastructure needs, should bode well for the growth of PPPs globally in the near term.

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