Government Support to Public Private Partnerships: 2011 Highlights

Methodology and Background

In FY 12, the PPI Database expanded its coverage to create a flag to identify Public Private Partnership (PPP) projects and to expand its coverage to include government support to PPPs. To accomplish this, a new methodology was developed by the PPI Database team, which was reviewed by the Global Expert Team on PPPs with members from the World Bank, IFC and MIGA. The new coverage includes key financial data (where available) such as types of government guarantees; the debt-to-equity ratio; the amount of debt funding from commercial banks, donors and local banks; the names of banks providing loans; and government support to project revenues, including tax deductions. The core PPI Database covers a broader range of private participation in infrastructure. For the purpose of tracking government support to PPPs, the following definition of PPPs was adopted (this definition does not include management contracts or divestitures):

- A PPP bundles investment and service provision into a single (in most cases) long term contract
- For the duration of the contract, the concessionaire (or private partner) will build (or rehabilitate), manage, maintain, operate and control the assets in exchange for some combination of user fees and/or government transfers/payments, which are its compensation for the investment and other costs
- The corresponding government commits to make in-kind or financial contributions to the project, whether through subsidies, guarantees, shadow fees, and/or availability payments
- PPPs can create direct or contingent liabilities on the granting authority

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Breakdown by region

**Africa (AFR):** 13 projects were labeled as PPPs, two of which were renewable energy projects. All projects were contracted by users, except a biomass plant in Sierra Leone, which was contracted by the government. Seven projects had Power Purchase Agreements (PPA) or Water Purchase Agreement (WPA) payments, three projects received user fee payments, and one project received fixed payments from the government (two were not available).

**East Asia and Pacific (EAP):** 15 projects were labeled as PPPs, all of which were renewable energy projects. All projects covered services contracted by the government (PPP type). In terms of their revenue source all had PPA agreements.

**Europe and Central Asia (ECA):** 23 projects were labeled as PPPs, all of which were renewable energy projects. All projects covered services contracted by the government (PPP type). In terms of their revenue source, 21 had PPA agreements while two sold to the wholesale market.

**Latin America and the Caribbean (LAC):** Out of a total of 89 new projects, 53 were PPPs – two were transport projects and 51 were energy projects. Nine projects covered services contracted by the government while 44 covered services contracted by users. In terms of their revenue source, 13 had PPA/WPA Payments, one sold to the wholesale market, while 39 had a combined revenue source including PPA/WPA payments and tax deduction and other incentives.

**Middle East and North Africa (MNA):** There were no PPP projects in MNA in 2011.

**South Asia (SA):** 74 projects were labeled as PPPs. 34 were energy PPPs and 40 were Transports PPPs. 21 covered services contracted by the government and 23 covered services contracted by users. In terms of their revenue source, nine projects had PPA agreements while 53 generated revenue via user fees.

**India and Brazil close-up**

There were 65 PPP projects in 2011 in India alone. The market for PPPs in 2011 focused heavily on services contracted by users, which were offered by 82% of the projects (53) while the remaining 18% (12) of them covered services by the government. All projects had a fixed concession term.

Government support to project revenue amounted to US$625.9 million. The type of support is via annuity payments (18% of the projects), or via combined support including a mix of user fees, annuity payments and/or real estate development revenues (2%). In terms of funding, all Indian PPPs had debt finance from local public banks.

In Brazil there were 44 PPP projects in 2011. Financing was largely provided by BNDES, a local public bank which lent to at least 22 projects. Services were contracted by users in at least 50% of Brazilian projects. All projects had a fixed concession term. A variable term concession would be similar to the Chilean model where the bidder is awarded the contract based on the least present value of total revenue, and the concession period ends when a total amount of revenue is reached.

Government support to project revenue was the most prominent feature in Brazil, however. In addition to PPA/WPAs, 40 out of 44 projects benefitted from tax deductions. The Regime Especial de Incentivos para o Desenvolvimento da Infra-Estrutura (Reidi) was the most prominent feature. Companies in this program were given tax cuts for the acquisition of capital equipment and construction materials (this incentive represents a cost reduction of about 9.25%). In addition, companies were allowed to use accelerated depreciation accounting methods for construction expenditures.

**Financing and Revenue Information for PPPs:**

Of the 80 PPP projects for which financing information was available, 57% had a debt/equity ratio in the 70/30 range. The next most common ratio was 60:40. Approximately 1% of the projects was financed with more equity than debt.
By sources of revenue, PPA/WPA payments from government off-takers provided revenue for 39% of PPPs. User fees alone were the second largest category, and were found in 34% of PPPs. Mixed government support in the form of revenue support and a tax deduction were present in 23% of the projects. Annuity payments, such as availability payments in roads, were only present in 1% of projects. Sales to the wholesale market were found in only 2% of PPPs, but this figure does not apply to the energy sector. Aside from these projects, there was a large number of merchant power plants that did not receive government support and that were not categorized as PPPs.

![Debt/Equity ratios across PPPs](image)

![PPPs by revenue source](image)