Small State PPPs
October, 2014

Public Private Partnerships, more than a financing solution
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## Promoting Private Sector Investment

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<th>Success Factors</th>
<th>Small State Context</th>
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<td>➢ Political leadership</td>
<td>➢ Public-sector funding requirement larger</td>
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<td>➢ Enabling environment</td>
<td>➢ Higher Costs</td>
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<td>➢ Long-term partnership</td>
<td>➢ Limited local private investors</td>
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<td>➢ Long-term private (and public) capital</td>
<td>➢ Investor appetite for small projects?</td>
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<td>➢ Balanced risk allocation</td>
<td>➢ Govt capacity-building required</td>
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<td>➢ Contract management capacity</td>
<td>➢ Dispersed population</td>
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Potential Sectors

- Ports & Airports
- Facilities Mgt. (Tourism, hospitals, schools etc.)
- Water & Solid Waste
- Renewable Energy
Challenges

- Capital cities of these countries take a lion share of the economic activity of the entire country, and of its population.

- Close-knit population can unite more easily and derail the process if not taken on board early on.

- Providing affordable infrastructure services is difficult in small states given that it is difficult to have economies of scale.

- Increasing costs due to remoteness, lack of indigenous resources and other geographic characteristics also increase costs.

- Dealing with sometimes cyclical nature of demand (for instance in economies heavily dependent on tourism) creates uncertainty.
Challenges-2

- Vulnerability of smaller economies to natural disasters and global economic shocks
- Dealing with environmental and social issues more complex
- Changing the culture of end-users not paying tolls/fee for services
- Ensuring value-for-money by avoiding costly and complex evaluation and procurement approaches for small scale projects
- Ensuring arms length approach to regulation is difficult given the smaller pool of professionals who know each other through many channels
- Processing Unsolicited Bids in a fair, transparent and in a manner that creates value-for-money
Lessons Learnt from Similar Experience: Small States in the Caribbean

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<th>What?</th>
<th>Why?</th>
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<tr>
<td>Fiscal surprises</td>
<td>• Inappropriate risk allocation</td>
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<td>• Inadequate due diligence and preparation</td>
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<td>• Insufficient fiscal oversight</td>
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<td>Deal closing delays</td>
<td>• Unclear or flawed transaction processes</td>
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<td>• Gaps in due diligence and preparation</td>
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<td>• Insufficient execution capacity</td>
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<td>Failures to launch</td>
<td>• Insufficient project preparation capacity</td>
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<td></td>
<td>• Lack of awareness of PPP potential</td>
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<td>• Lack of regional coordination mechanisms</td>
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Source: First Caribbean Infrastructure Conference, 2014 Castalia Strategic Advisors
Lessons Learnt from Similar Experience: Small States in the Caribbean-2

In a 2013 review of Caribbean PPPs (undertaken for the World Bank by Castalia Strategic Advisors), we found that the vast majority of projects never get off the drawing board:

- Concept: 53%
- Feasibility & Business Case: 39%
- Tender: 8%
A Few Recommendations

- Ensure full political buy-in from the very start
- Build stakeholder capacity and put in place a robust communications program
- Proactively involve donors and multilaterals in the early days
- Ensure independent and effective regulation to create the rules and incentives that:
  - Aim for fair and reasonable prices (provide for cost recovery gaps, if any)
  - Promote light regulation/more discretion (easy to implement and flexible)
  - Create multi-sector regulatory bodies (given limited resources)
  - Outsource regulatory expertise, if required
  - Use simplified contracts (especially for smaller projects)
A Few Recommendations-2

- Establish dedicated ‘focal point’ PPP Unit to help governments develop and expedite the PPP market, while at the same time protecting public interest

- Manage fiscal commitments (direct and contingent) closely and ensure the all commitments are backstopped and budgeted for (avoid surprises)

- Undertake a robust risk (including environmental and social risks) analysis and ensure all risks are properly mitigated

- Involve investor/sponsors/financiers from larger regional economies who are familiar with local risks and have in vested interest in local infrastructure development

- Promote South-South Investment
Concluding Remarks

- I look forward to hearing from the honorable speakers representing small states here today

- I hope we can all learn from each other's experiences

- I propose that we create some sort of a platform for small states to be able to get ‘real time’ feedback from their counterparts in other countries, as well as WBG’s professional staff