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MAGAZINE

FROM RISK TRANSFER TO RISK DESIGN



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01
From the Editor



Thibaut Mourgues

EDITOR-IN-CHIEF

Public-Private Partnerships: From Risk Transfer to Risk Design and Relationship Preservation

For decades, the dominant logic governing infrastructure concessions rested on a simple, albeit flawed, premise: transfer as much project risk as possible to the private partner and let the balance sheet absorb the impact. Today, empirical evidence and hard-earned project experience tell a very different story. As governments, investors, and communities grapple with fiscal constraints, macroeconomic volatility, and heightened social expectations, this edition of the WAPPP Quarterly explores a paradigm shift—moving away from rigid risk transfer toward intentional risk design, structural discipline, and relational sustainability. **Our featured contributors tackle this evolution across every stage of the PPP lifecycle:**

Rethinking Risk and Procurement Mechanics: Opening the issue, **Tosin Ajakaiye** and **Fadi Najdi** challenge conventional bankability frameworks. Ajakaiye examines how National Infrastructure Financing Institutions can leverage innovative contractual instruments like the Least Present Value of Revenue (LPVR) model to design—rather than simply shift—demand risk, embedding "public bankability" and social legitimacy into project architecture. Complementing this, Najdi demonstrates why the illusion of absolute risk transfer consistently backfires, advocating for collaborative allocation and symmetric financial mechanisms over aggressive, adversarial procurement.

Alternative Models and Capacity Reality Checks: **Mark Moseley** continues his ongoing dialogue on procurement boundaries, evaluating Owen Hayford's proposals for "O&M First" and Tripartite DBOM models to test whether integrated operational benefits can be captured without private finance. In parallel, **Hassan Abdulrahim** offers a sharp, sponsor-side reality check on brownfield concessions, warning that winning a bid is not the same as winning an asset and calling for strict pricing discipline over early-stage optimism.

Sector Tools and Regional Lessons: Moving to sector applications, **Neil Dhot** introduces AquaFed's Water PPP Hub, a practical initiative designed to bridge the Global South's capacity gap and build bankable pipelines for SDG 6. Meanwhile, **Rahul Reddy Talakola** delivers a cautionary analysis of the Andhra Pradesh model, illustrating how the misuse of PPPs as off-budget debt substitutes can erode state fiscal sovereignty and long-term public value.

The Long-term Imperative—Dispute Avoidance and Mediation: Concluding our narrative, **Blažo Nedić** details how IPAM's problem-solving mediation successfully resolved Serbia's €400 million Belgrade Waste Management dispute by restoring dialogue and dignity among local communities, municipalities, and private operators. Expanding on this, **Jean-Christophe Barth-Coullaré** argues that the true longevity of multi-decade partnerships depends not on litigation or arbitration, but on standardized contracts, ESG grievance mechanisms, and proactive mediation.

Ultimately, an infrastructure project is only as durable as the contractual and human relationships behind it. We hope this collection of insights provides actionable strategies for designing partnerships that endure long after financial close.

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02

Rethinking Risk and Procurement Mechanics

WAPPP

From Risk Transfer to Risk Design: Could LPVR Help National Infrastructure Financing Institutions Make Demand-Risk PPPs Bankable?



Tosin Ajakaiye
Bachelor of Laws, Master of Business Administration

Introduction

From financing infrastructure to designing bankability

National Infrastructure Financing Institutions (NIFIs) are increasingly being positioned as more than providers of long-term capital. Their broader purpose is to address the risks and market failures that prevent private capital from flowing into infrastructure at the scale required. This raises an important question for public-private partnerships (PPPs)*:* **can a NIFI improve the bankability of infrastructure not only by providing finance or credit enhancement, but by influencing how the underlying project risks are allocated?**

The question is particularly significant for demand-dependent PPPs. Demand risk is routinely incorporated into the financial model and, under a conventional fixed-term concession, is frequently transferred substantially to the private sector. Yet traffic volumes, passenger numbers, economic activity and users' willingness to pay are not necessarily risks that a private concessionaire can control. When forecasts prove wrong, the consequences may extend beyond the concessionaire's balance sheet to renegotiation, government support, tariff disputes and political intervention.

This suggests a different way of thinking about PPP bankability. Rather than asking only whether a project has sufficient financing, or whether government can provide sufficient guarantees to make private investment possible, should greater attention be given to how the contractual structure itself responds to uncertainty?

The Least Present Value of Revenue (LPVR) model provides a useful lens through which to explore that question. Under a conventional fixed-term concession, the duration of the concession is predetermined while the revenues generated during that period remain uncertain. Under an LPVR structure, by contrast, the revenue amount to be recovered is determined in advance while the concession period adjusts according to realised revenues. Stronger-than-expected demand can therefore shorten the concession, while weaker demand can extend it.

LPVR is not a new solution. Its theoretical foundations are well established, and its advantages and limitations have been examined extensively. The purpose of revisiting it in the context of NIFIs is therefore not to claim novelty for the mechanism itself. Rather, LPVR provides a practical example of a broader proposition: NIFIs may be capable of contributing to PPP bankability through risk design as well as through financial mobilisation.

This proposition is particularly relevant in emerging-market contexts such as Nigeria, where demand uncertainty can intersect with imperfect data, foreign-exchange and inflationary pressures, regulatory uncertainty and institutional constraints.

There is also a further dimension: the parties who finance and administer a PPP are not its only stakeholders.

The public ultimately uses the infrastructure, pays many of the revenues on which the project depends and bears the consequences of its contractual arrangements. This article argues that LPVR should be considered not as an alternative to fixed-term concessions, but as one possible instrument within a NIFI's broader risk-design function. It further proposes the concept of public bankability which means the extent to which a contractual and revenue structure can maintain sufficient legitimacy among affected users and citizens to remain sustainable throughout its lifecycle. Nigeria provides a useful context in which to test this proposition.

1. From transferring demand risk to designing it

The conventional logic of PPPs is that risks should be allocated to the party best able to manage them. Demand risk complicates that principle. A concessionaire may influence service quality and operational efficiency, but cannot necessarily control economic growth, population movements, competing infrastructure, government policy or users' ability to pay. A railway operator cannot manufacture passengers; a toll-road concessionaire cannot control the wider economy. Yet, under a fixed-term user-pay concession, the private party may absorb much of the resulting revenue uncertainty which can create a mismatch between risk bearing and risk control.

Where demand falls below forecast, lower revenues can undermine debt-service capacity and equity returns, creating pressure for tariff increases, renegotiation or government support. Where demand substantially exceeds forecasts, the private party may capture significant upside for the remainder of a long concession. The question is therefore not whether demand risk should always be transferred to the private sector. It is whether a rigid fixed-term structure is always the most efficient way of allocating that uncertainty.

2. LPVR as contractual risk design

The LPVR model, associated principally with Engel, Fischer and Galetovic, was developed as an alternative to conventional fixed-term concession auctions. Instead of competing for a predetermined concession period, bidders compete on the present value of revenues they require. Once the concessionaire has received that agreed present value, the concession ends. Higher-than-expected demand can bring the concession to an earlier end, while lower-than-expected demand can extend it. LPVR does not eliminate demand risk; it changes the contractual response to it. The concessionaire still faces uncertainty concerning how quickly the revenue target will be reached, while operating costs, financing costs and other risks remain relevant. Its significance is that it demonstrates that contractual design can change how uncertainty is allocated without necessarily requiring government to absorb that uncertainty through guarantees.

Chile's Route 68 provides a practical illustration. Awarded in 1998, the Santiago–Valparaíso concession was the first Chilean road PPP formally tendered using LPVR. Four qualified bidders competed, with the winning consortium bidding the lowest present value of revenues required to construct and operate the road. Rather than expiring on a fixed date, the concession was designed to terminate once the agreed present value of toll revenues had been collected, subject to a 25-year maximum term. Significantly, the winning bidder declined an optional government revenue guarantee, while lenders accepted the variable-term structure. The experience suggests that LPVR can materially reduce long-term demand exposure without making a project inherently unfinanceable. It does not, however, eliminate short-term cash-flow, construction or other project risks—an important distinction when considering its application in emerging markets. According to the World Bank record, aside from Chile, LPVR has been used for toll roads in Colombia.

> *"LPVR does not eliminate demand risk, it changes the contractual response to it."*
>
> **— Tosin Ajakaiye**

3. The NIFI as risk architect

If a NIFI is understood simply as a provider of long-term debt or guarantees, LPVR may appear peripheral to its mandate. If, however, its purpose is to de-risk PPP pipelines and mobilize private investment, a broader role emerges and the question becomes:

> *What risks are preventing private capital from entering the project, and can those risks be addressed through better contractual design rather than simply more public money?*

Consider a hypothetical Nigerian transport PPP with substantial uncertainty about passenger demand. Under a fixed-term concession, the concessionaire may forecast revenues over 25 years. Lenders may discount those forecasts, while government may be asked to provide a minimum-revenue guarantee. That guarantee can improve bankability, but creates a contingent liability for government.

If demand remains weak, the public sector may ultimately absorb a significant proportion of the risk it sought to transfer.

For an appropriate project, LPVR could instead establish a defined revenue target while allowing the concession period to adjust to actual revenues. Other risks could then be addressed separately through appropriate contractual and financial instruments.

A NIFI's contribution to bankability would include determining whether the risks presented to private investors are risks they are actually capable of pricing and bearing. This intervention can occur upstream of financial close, through project preparation, contractual design, credit enhancement and monitoring.

The significance for NIFIs is consequently not that they should promote LPVR indiscriminately. Rather, they can help determine when a different allocation of risk may produce a more financeable project.

4. Nigeria: the institutional test

Nigeria demonstrates why contractual innovation cannot be separated from institutional capacity.

The first challenge is data. LPVR depends on credible measurement of actual revenues. Where historical demand data is incomplete or revenue reporting is unreliable, changing the concession period does not make the underlying uncertainty disappear. The dispute may simply move from "What will demand be?" to "What revenue was actually generated?" A NIFI could potentially address this through independent revenue verification, reporting standards, transparent calculation methodologies and robust monitoring.

The second challenge is institutional credibility. Someone must administer the mechanism, verify revenues and determine when the revenue target has been reached. A sophisticated contract is of limited value if the institutions responsible for administering it cannot credibly enforce it over decades.

The third is macroeconomic risk. LPVR principally addresses demand and revenue uncertainty. It does not protect against foreign-exchange depreciation, inflation, rising financing costs or construction overruns. These risks require separate allocation or mitigation.

The fourth is political durability. PPP concessions can outlive governments. A structure accepted at financial close may later face pressure if tariffs rise, demand materially exceeds expectations or a new administration questions the original bargain.

LPVR must therefore be understood as one component of a broader risk architecture rather than as a substitute for it.

5. The public as part of the risk architecture

There is, however, another consideration that deserves greater attention—the public. The public is not synonymous with government. It includes the people who use the infrastructure, pay the tariffs or tolls, experience disruption during construction and ultimately live with the consequences of the PPP.

The Lekki–Epe Expressway experience provides an instructive Nigerian example. The introduction of tolling on a previously un-tolled road generated strong public opposition and political difficulties around the concession. World Bank analysis subsequently highlighted the importance of political support and stakeholder engagement in sustaining the tolling arrangement.

The lesson here is not that Nigerians oppose PPPs; we do not. A more useful conclusion is that a revenue-dependent PPP can become vulnerable when the public does not regard its revenue mechanism as legitimate or sufficiently transparent. This matters for LPVR because a flexible concession introduces a proposition that may be less intuitive to users than a fixed-term concession.

To a financier, this may be an efficient mechanism for allocating demand risk. To a member of the public, it can generate legitimate questions:

> *Who determines when the concession ends? How is revenue calculated? What prevents the concession from continuing indefinitely? What happens if demand substantially exceeds forecasts? What safeguards exist against excessive tariffs or private returns?*

These questions should be addressed before implementation, not after financial close. The public should be carried along and made to understand the economic logic of the arrangement. If public resistance subsequently affects tariffs, revenue collection, regulation or government policy, what began as a question of public acceptance can become a financing risk.

This article therefore proposes public bankability as an analytical concept that recognises that the sustainability of a PPP project may depend upon more than its financial model.

6. What could a NIFI-supported approach look like?

A NIFI considering LPVR could assess a project through five questions:

- One, is LPVR appropriate? Demand must be sufficiently measurable and revenues capable of credible verification.
- Two, what risks remain? LPVR should not substitute for addressing construction, foreign-exchange, inflationary or regulatory risks.
- Three, what safeguards are required? The revenue target, discount rate, maximum concession period, verification process and termination arrangements should be clearly defined.
- Four, can the institutions administer it? Revenue monitoring and enforcement must be sufficiently credible to withstand disputes and political changes.
- Five, does the public understand the bargain? Users should understand why the concession period is flexible, how revenues are measured and what protections exist.

This reframes the NIFI's role: it no longer simply asks "Can we finance this PPP?" but "What contractual, financial, institutional and public architecture would allow this PPP to remain financeable and legitimate throughout its lifecycle?"

Conclusion

From risk transfer to risk design

LPVR is not new, nor is it a universal answer to demand risk. Its value in the context of NIFIs lies in what it demonstrates: that a PPP's bankability can be influenced by the design of its contractual response to uncertainty, not simply by the amount of capital available to finance it.

For NIFIs, this creates an opportunity to move beyond capital mobilisation towards risk design. LPVR provides one example of how demand risk might be structured differently, potentially reducing reliance on broad government guarantees while allowing the concession period to respond to realised revenues.

In Nigeria, however, contractual innovation must be accompanied by credible institutions, reliable revenue measurement, appropriate treatment of macroeconomic and regulatory risks, and meaningful public engagement.

The broader lesson is that a bankable PPP is not merely one that reaches financial close. It is one whose financial, contractual, institutional and public foundations can endure over the life of the infrastructure. For NIFIs, the challenge is consequently not simply to mobilise more capital, but to help design better ways of allocating uncertainty: a shift from risk transfer to risk design.



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Failure of Absolute Risk Transfer



Fadi Najdi *Engineering, Procurement and Construction, Project Management, Capital Projects, Project Management Office, Portfolio Management Professional (PfMP)*

Historically, governmental or public entities viewed Public-Private Partnerships (PPPs) primarily as off-balance-sheet vehicles designed to transfer project risks entirely to the private sector. Empirical evidence from global infrastructure procurement has clearly debunked this approach. Within public infrastructure, risk can be outsourced, but the public entity will always be exposed. If a major concessionaire defaults or enters liquidation, the private special purpose vehicle (SPV) may dissolve, but the public authority remains legally and politically responsible for an incomplete, non-operational public asset.

Transitioning from a transactional and adversarial model to an operational alliance requires an updated risk management strategy. Project finance practitioners continually emphasize that risk must reside with the party best equipped to manage it. Consequently, the public sector's mindset must genuinely shift from risk-transfer to collaborative risk allocation.

The private sector excels at managing construction variables, supply chain logistics, and operational efficiencies. On the other hand, the public sector is structurally positioned to manage legislative, political, macro-planning, and regulatory risks. This high-level risk allocation should not be the outcome of adversarial negotiation between parties. Ownership of these risks should instead be adopted proactively by each party within a collaborative environment.

Furthermore, public authorities must accept that private sponsors require a reasonable, risk-adjusted return on capital to maintain solvency and ensure long-term asset preservation. Modern PPP frameworks must integrate symmetric financial structures, such as contractually defined pain-share/gain-share mechanisms.

The Structural Backfire of Aggressive Procurement

Sustaining an aggressive risk-transfer posture would result in adverse mid- to long-term consequences for the public partner.

When procuring authorities impose unbalanced risk allocation, artificially low tariff caps, or aggressive liquidated damages regimes, they trigger three distinct market failures: First, reputable, tier-one international developers will decline to participate in the tender. The public sector is left selecting from second-tier or inexperienced contractors deliberately bid low to secure the mandate, only to face insolvency or demand aggressive contract renegotiations post-award.

Second, disproportionate risk transfer imposed by the public sector incentivizes defensive project management. The private partner would shift resources away from operational value creation and focus instead on building robust legal claim files to recoup lost revenues.

Third, commercial lenders and international financial institutions may refuse to extend non-recourse debt financing if they deem the concession terms aggressive. This effectively stalls projects prior to reaching financial close.

> *"Within public infrastructure, risk can be outsourced, but public entity will always be exposed."*
>
> — Fadi Najdi

The Optimal Readiness Framework for the Public Party

To protect public funds and ensure timely asset delivery, the public sector must shift its focus. Rather than squeezing the private partner, authorities must focus on rigorous internal preparation, comprehensive market testing, and precise risk modeling. Governments should centralize the PPP procurement lifecycle within a highly technical, national PPP unit. Individual line ministries often lack the specialized project finance, legal, and financial modeling capabilities required to negotiate complex agreements. A centralized unit centralizes institutional expertise, standardizes contracts, and prevents sophisticated private consortia from out-negotiating public officials.

On the other hand, PPP Units shall ensure market viability of their proposals before going public. Prior to launching a formal request for proposals (RFP), authorities must initiate structured consultation sessions with reputable developers, engineering, procurement, and construction (EPC) contractors, and infrastructure lenders. This process evaluates market appetite and validates whether the proposed risk allocation, revenue models, and legal frameworks are commercially bankable. Negative market feedback should trigger an immediate revision of terms prior to issuing the tender.

Furthermore, additional homework shall be done via stress-tested value for money (VfM) modeling
Procuring authorities must develop an independent, data-driven Public Sector Comparator (PSC) model. Rather than manipulating assumptions to justify a predetermined outcome, the public unit must run deep sensitivity analyses against extreme macroeconomic shocks. The model should evaluate project resilience against scenarios such as a 10% structural inflation surge, a 30% contraction in user demand, or a doubling of baseline interest rates. This analysis must definitively prove that the PPP structure yields superior Value for Money compared to traditional public procurement under economic duress.

Another important step is ensuring that the requirements under the public party's control are in place. Public authorities should complete land acquisition, secure right-of-way (ROW) clearances, and obtain primary environmental approvals before executing the concession agreement. Globally, land disputes and delayed statutory permits remain primary drivers of construction delays. Forcing an SPV to wait for site access triggers material, contractually binding delay-compensation claims against the state.

Additionally, the state must allocate dedicated, multi-decade budgetary funding to retain independent engineers, technical auditors, and contract managers. While asset management functions primarily protect value rather than create it, the early detection of structural or operational deviations substantially reduces public liability over the concession lifecycle.

Proactive Private Party Attitude

While the public partner must conduct rigorous internal due diligence and occasionally step in to stabilize a project, partnership is a two-way street. The private partner—typically organized as a Special Purpose Vehicle (SPV)—cannot sit back as a passive risk-bearer. They must actively deploy their commercial expertise, balance sheet, and technical agility to protect the public interest, absorb systemic shocks, and shield the taxpayer.

When unexpected macroeconomic shocks occur, the private sponsor serves as a financial shock absorber. Rather than letting the asset fail or demanding an immediate public bailout, the private party injects additional equity or restrains dividend distributions to maintain project solvency.

During global supply chain shocks and sudden hyperinflation, several SPVs building social infrastructure absorbed the initial 5% to 10% spike in material and labor costs. They utilized corporate cash reserves or extended corporate guarantees to suppliers, completely shielding the government's procurement budget from inflationary variations.

The private party actively pursues debt refinancing to reduce the bill of interest payment on both parties. In mature infrastructure markets like the UK and Australia, private consortia frequently initiate refinancing of high-interest construction debt into lower-yielding operational bonds. By sharing these gains, the private sector actively reduces the state's annual availability payment obligations without cutting public services.

Empirical Case Analysis in Governance Crises

Recent volatility in global infrastructure delivery highlights the fragility of rigid project governance during macroeconomic and geopolitical disruptions. The Hinkley Point C Nuclear Project was a massive state-backed infrastructure project driven by a highly complex, multi-billion-dollar joint venture. The project was originally structured as a joint partnership between France's EDF and China's state-owned CGN. Due to geopolitical friction and changing governance policies, the UK government blocked CGN from future investments. Furthermore, EDF faced severe internal balance sheet stress and escalating project costs. The governance rescue plan comprised of decoupling the overarching project delivery model. CGN stopped funding its portion of cost overruns, effectively turning EDF into the sole financial backer while the UK government stepped in to restructure the long-term financing and guarantee mechanics to keep construction moving.

Another example would be Gorgon LNG, a mega-scale energy project utilizing joint venture governance between Chevron, ExxonMobil and Shell, where a critical technology or execution failure threatened total project ruin. During the construction of Australia's massive project, severe structural cracks were discovered in the huge high-voltage/high-pressure heat exchangers.

Rather than litigating to a standstill and freezing the asset, the joint venture utilized emergency oversight governance. The operators immediately initiated a massive, coordinated "step-in" operation, bringing in specialized international repair teams and shifting the asset delivery workload among the partners to minimize multi-billion-dollar delay damages.

During the COVID-19 pandemic, private operators of PPP hospitals rapidly altered facility layouts, converted general wards into negative-pressure ICU zones, and re-engineered ventilation systems weeks faster than traditional public sector procurement channels could authorize. The private parties absorbed the immediate execution risks to ensure public health continuity.

Finally, a Spain-based contractor, Elecnor, faced intense supply chain pressures and skyrocketing material costs (notably steel) and logistical bottlenecks that completely broke the project's original financial model, pushing the contract into deep distress. To keep the critical energy security project from collapsing into total insolvency, the transmission network operator, Transgrid, stepped in. It restructured the underlying commercial terms, injecting additional emergency funding and adjusting risk-sharing mechanisms to prevent the private contractor from walking away mid-construction.

Conclusion: A Shift in the Mega-Project Procurement Mindset

The unifying lesson across these global precedents points to a fundamental evolution in infrastructure procurement: the obsolescence of the rigid, fixed-price EPC contract for mega-projects.

When capital expenditure crosses the multi-billion-dollar threshold, forcing a private contractor to absorb 100% of macroeconomic volatility, hyperinflation, and systemic supply chain risks via rigid contracts consistently results in contractor insolvency or project abandonment. Modern infrastructure governance is rapidly shifting toward Collaborative Alliance Contracting. Under this approach, the procuring client, technology providers, and civil constructors share financial risks and contingencies in real time within a flexible contractual framework—without diluting the distinct operational accountabilities of each party.



Risk can be transferred on paper, but the public authority owns the outcome.

03

Alternative Models and Capacity Reality Checks

PPPs Without Private Finance?



Mark Moseley *Principal at Moseley Infrastructure Advisory Services*

Can the benefits of Public-Private Partnerships be obtained without the costs of private finance? That is the key question raised in four important postings which the leading Australian PPP lawyer, Owen Hayford, placed on his *InfraLegal* website[1] in July 2026.

In an article which I prepared for the December 2025 edition of the *WAPPP Magazine,*[2] I responded to an earlier Owen Hayford posting, discussing the differences between the PPP environments in Australia and those found in most emerging markets. In this article, I am continuing that dialogue, dealing with the PPP finance question raised in Owen's four new July postings.

I will start by summarizing Owen's four postings.

Owen Hayford's 12 July Posting: Putting Operations First

The initial posting in the series[3] outlines what Owen Hayford calls the 'O&M First Model'. This posting begins by separating the benefits of integrated procurement from its financing. Owen argues that many PPP benefits – including output specifications, performance-based payments, deductions for service failures, lifecycle planning and handback obligations – are related to the proper integration of operational requirements with decisions about design and construction, and he asserts that this integration does not require a privately financed Special Purpose Vehicle (SPV) PPP company.

In a Traditional Infrastructure Procurement (TIP) (or 'public works' procurement) project, the government often appoints the Operations and Maintenance (O&M) contractor after important design choices have been settled. Equipment, access arrangements and replacement strategies may then reflect construction priorities rather than long-term efficiency. Owen proposes changing the normal TIP approach by reversing the sequence: appoint the long-term O&M contractor first, then develop the performance requirements jointly with the government contracting authority before procuring the Design and Construction (D&C) contractor.

How can an O&M contractor price an asset not yet designed? Owen observes that operators already do this in PPP bids, by making assumptions about the characteristics necessary for efficient operation. Under the O&M First TIP Model, these assumptions can become explicit requirements. The O&M contractor reviews the developing design against those requirements, potentially through a development phase before construction pricing is finalised.

The O&M First TIP Model could preserve many familiar PPP incentives and whole-of-life benefits. Owen does, however, acknowledge what it would omit: private capital, lender oversight and intervention rights, financial protection against contractor failure and, where applicable, demand-risk transfer. The proposal separates operational integration from financing; it does not establish that finance contributes nothing.

Owen Hayford's 16 July Posting: Managing the Construction-Operations Interface

Owen Hayford's second posting[4] proposes another TIP approach: the 'Tripartite DBOM Model', with a single design-build-operate-maintain contract between the government, the D&C contractor and the O&M contractor. A PPP SPV normally integrates the contractors' obligations and assumes interface risk.

Owen asks whether that responsibility can instead be assigned directly, without a privately financed intermediary.

The proposed Tripartite DBOM contract would distinguish responsibilities allocated exclusively to one contractor from shared responsibilities. Design defects would generally belong to the D&C contractor; inadequate maintenance to the O&M contractor. Outcomes such as availability, energy performance or asset condition could depend on both parties, and would require shared accountability.

The principal innovation in this TIP model is that it documents assumptions that are often left implicit in a PPP contract. For each major design package, a Design Performance Statement would explain compliance with the performance requirements and identify the operational and lifecycle dependencies. These requirements would include maintenance activities and future renewals necessary for the design to continue delivering the required outcomes. The D&C contractor would certify performance conditional on those dependencies being satisfied.

The O&M contractor would review the package and certify that the dependencies are consistent with its obligations, and that it knows of no material reason why the design could not perform accordingly. This is, expressly, not a warranty of the D&C contractor's design. Instead, it creates an agreed record linking design decisions, maintenance requirements and long-term performance.

For shared failures, the Tripartite DBOM contract would specify investigation, mitigation, presumptive responsibility and dispute-resolution arrangements. The contractors would restore service before settling ultimate liability. Owen's proposal therefore seeks to preserve interface accountability through explicit contractual obligations, avoiding the financing costs and the complexity of a PPP SPV. It is presented as an alternative requiring development, rather than a universal substitute for PPPs.

"Demonstrating that PPPs provide benefits does not settle which elements produce those benefits."

— Mark Moseley

Owen Hayford's 24 July Posting: Testing the Value of Financial Scrutiny

Owen Hayford's third posting[5] addresses a central justification for private finance: namely that lenders and investors put capital at risk and therefore impose discipline that owners cannot readily reproduce. Owen accepts the intuitive force of this argument – but he seeks to identify what financiers actually examine in contemporary Australian PPPs, and whether that scrutiny justifies the cost of private finance.

In a typical Availability-Payment PPP, the SPV passes construction and operating risks to contractors, while the government retains demand risk and specified relief or compensation risks. Owen suggests that financiers consequently focus heavily on whether the contractual and financial structure protects the SPV when problems arise. Some concerns, including mismatches between contractual obligations and subcontractor liabilities, are associated with the intermediary structure itself. Removing that structure may remove some of the problems being scrutinized. Lenders' technical advisers certainly review projects. However, Owen questions whether lending decisions primarily rest on confidence in the technical solution or on the strength of the contractors undertaking the obligations. He argues that sophisticated government contracting authorities can themselves assess contractor capability, balance sheets, parent-company support, security, insurance and risk allocation. These skills are not exclusive to project finance. Crucially, this proposition is expressed in terms of what a capable government contracting authority can do.

Owen also distinguishes correcting optimism bias from protecting the borrower against its consequences. Drawing on three decades of transactions, he says he cannot recall a lender requiring a construction contractor to increase a price considered unrealistically low. Lenders may instead demand contingencies, reserves or stronger security. Such measures can improve financial resilience without correcting the underlying assumptions.

End-User Payment PPPs, where the SPV is accepting demand risk, are a significant exception. Where repayment depends on tolls or other user charges, financiers have a direct interest in testing demand and revenue forecasts.

Owen accepts that this can add genuine value, while observing that such transactions have become less common in Australia. His argument therefore bears most directly on Availability-Payment projects, where government normally retains the demand exposure. Owen was also cautions against attributing evidence of better PPP construction performance automatically to finance. Tighter contractual rules on extensions of time and compensation may explain greater price and programme certainty.

Owen's conclusions in his third posting remain qualified. He recognizes that private finance can provide a buffer against contractor failure, with additional monitoring, restrictions on further drawdowns and lender step-in rights all helping to address serious performance problems. These benefits are real. The issue is whether their additional value exceeds the extra costs of private finance. Demonstrating that PPPs provide benefits does not settle which elements produce those benefits.

Owen Hayford's 30 July Posting: The Sponsor's Contribution Beyond Capital

Owen's final posting in the series[6] responds to comments made by various Australian PPP practitioners who considered the arguments made in his first three July postings. In many instances, those practitioners felt that Owen had understated the benefits provided by privately financed SPVs.

In his response, Owen distinguishes the SPV, a legal vehicle, from the sponsors behind it—typically the proposed equity investors. Their experience, judgement and leadership may explain benefits that are not adequately captured by a discussion of financing or financial-model scrutiny alone.

A PPP consortium's apparently unified bid can conceal conflicting priorities. Construction contractors seek efficient delivery, manageable risks and lower capital costs. Operators seek reliability, maintainability and adequate provision for future renewals. Both positions are commercially rational, but they will not necessarily produce the best overall outcome without someone resolving the trade-offs. The mere existence of the O&M contractor in a PPP consortium is, by itself, insufficient – unless it gives the O&M contractor effective influence. Owen identifies various reasons why D&C contractors often have a disproportionately high level of control in the bidding consortium. These reasons include the D&C contractor's greater size and immediate role as the first provider of services, and the weightings used in evaluation practices.

"Experienced sponsors behind the SPV can reconcile competing interests, challenge excessive risk transfer from either government or contractors, examine whether designs support service outcomes, and protect lifecycle considerations from short-term pressures."

— Mark Moseley

Accordingly, contractual integration may be stronger in theory than in the way bids are actually developed. However, experienced sponsors can act as an intelligent owner within the consortium. They can reconcile competing interests, challenge excessive risk transfer from either government or contractors, examine whether designs support service outcomes, and protect lifecycle considerations from short-term pressures. This integration function may be largely invisible to the government contracting authority, yet materially affect what it ultimately receives.

Could these integration services be obtained without a privately financed SPV? Owen identifies possible alternatives: stronger integration capability within the government contracting authority, O&M-first procurement, tripartite DBOM contracts and long-term alliance-style governance. However, someone must still balance competing interests, resolve disagreements and maintain the project's long-term objectives. Eliminating the SPV does not eliminate those responsibilities.

The difficult question is whether SPVs succeed through expertise alone, or through the combination of expertise, decision-making power, commercial influence and capital at risk. A sophisticated owner might build or procure the necessary technical capability, yet fail to reproduce a sponsor's effectiveness if the replacement lacks authority over design and operating trade-offs or accountability for their consequences. Hiring a coordinator does not necessarily recreate that commercial role.

Owen Hayford leaves this important question open. Integration may be conceptually separable from finance, but the capital and accountability arrangements could help make it effective in practice. His fourth posting qualifies his earlier arguments by recognizing the difficulty of replicating the full sponsor function without an SPV.

Overall, Owen's series of postings offers a serious challenge to automatic claims for private finance, while stopping short of demonstrating that all its benefits can be reproduced equally well without it.

Commentary: The Implications for Emerging Market PPPs

In my December 2025 WAPPP Magazine article, I argued that financing conditions, potential demand-risk transfer and public-sector capacity could give emerging markets stronger reasons to use privately financed PPPs than would be the case in Australia. Those distinctions remain relevant. Owen's July series, particularly his final posting, allows the capacity argument to be taken further.

Owen Hayford's references to a "capable" and a "sophisticated" government contracting authority deserve particular attention. These qualifications are integral to his reasoning. In many emerging markets, contracting authorities may not yet possess the institutional resources needed to perform the role which Owen envisages for government contracting authorities in Australia. This is not a criticism of individual government officials in emerging markets, many of whom work effectively under difficult conditions. It concerns the availability of specialist skills, continuity, budgets and authority to make timely decisions. The practical comparison must therefore be with the contracting authority that actually exists in a given country. A ministry's ability to purchase technical advice does not establish its ability to act on that advice, resolve competing commercial interests or defend long-term maintenance expenditures. A consultant may recommend a decision without having the power to implement it. Reproducing the SPV's contribution may consequently require changes in government decision-making and accountability, as well as additional expertise.

This strengthens the case for treating private sponsors and financiers as potential complements to constrained public capacity. Their contribution may be especially valuable where the alternative would place demanding additional responsibilities on an already stretched contracting authority. However, that value must be demonstrated in each particular transaction. It cannot be assumed from the PPP label, and a lender's concern for repayment should not be confused with government's broader responsibility for public value.

It should also be emphasized that emerging markets differ substantially, both between countries and between agencies in the same country.

An experienced national infrastructure agency may be equipped to adopt Owen Hayford's alternatives; a local authority undertaking its first major project may require substantial support under either approach. The assessment should therefore compare complete, implementable arrangements. Any savings from public financing should be considered alongside the cost of building and sustaining the necessary management capacity, the risks retained by government and the availability of funding. Conversely, a PPP appraisal should establish what sponsors and financiers will actually contribute, rather than crediting finance with every benefit of good procurement.

For emerging markets, Owen Hayford's question becomes: Can the required capability, authority and accountability be secured more effectively and affordably without private finance? His series shows why that question should be asked. It does not establish that the answer will be 'Yes' where contracting authorities lack the capacity his alternatives require. In those circumstances, a well-structured, privately financed PPP may still offer a compelling proposition.

Notes

1. Owen Hayford, Infralegal. https://www.infralegal.com.au/public- private-partnerships.
2. Mark Moseley, "Are Emerging Markets a Better Place to do Public- Private Partnerships?", WAPPP Magazine, Issue 4, December 2025, pp. 9– 11. https://wappp.net/wp-content/uploads/2025/12/WAPPP-MAGAZINE- ISSUE-4.pdf#page=9 .
3. Owen Hayford, 12 July 2026, Infralegal. https://www.infralegal.com.au/public-private-partnerships/the-oampm- first-model-capturing-ppp-value-without-private-finance.
4. Owen Hayford, 16 July 2026, Infralegal. https://www.infralegal.com.au/public-private-partnerships/the-tripartite- dbom-model .
5. Owen Hayford, 24 July 2026, Infralegal. https://www.infralegal.com.au/public-private-partnerships/how-much- additional-rigour-does-private-finance-actually-provide
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Brownfield PPP Bid Readiness



Photo Credit: Meridiam SAS

Brownfield Public-Private Partnership (PPP) opportunities are often perceived as lower-risk simply because the assets already exist. In reality, however, the investment challenge is frequently more complex. The risks are not necessarily visible during procurement; rather, they emerge gradually through lifecycle pressures, operational realities, rehabilitation requirements, financing constraints, and governance discipline over the life of the concession.

This paper discusses brownfield PPP transactions from a sponsor-side investment perspective, focusing on bid readiness, downside survivability, long-term asset resilience, and disciplined capital allocation under competitive pressure. Its objective is not merely to examine how projects are won, but how long-term investment value is preserved after financial close, particularly as PPP markets in the region mature and institutional expectations rise.

I hope this article contributes positively to the ongoing discussion surrounding the next generation of brownfield PPP projects in the region.

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Private-sector advisory for brownfield PPP concessions



REFLECTION 01

Winning the Bid is Not the Same as Winning the Asset

As more PPP assets are re-tendered following BOT expiry, it's worth reflecting on a simple but often overlooked distinction: *winning the bid is not the same as winning the asset.*

I have shared some reflections below based on observations from advising on private-sector bids for brownfield PPPs. In brownfield PPPs, success is often declared far too early. A preferred bidder announcement is made. Headlines follow. Internally, teams move on to the next opportunity.

Lessons from Brownfield PPPs

Yet in many cases, the real outcome of the transaction will only become clear years later, quietly, through underperforming cash flows, constrained returns, and assets that never quite deliver what was expected. The bid may be won on paper, but the asset is won or lost over the life of the concession.

This distinction matters more today than ever before, as governments across the region, including Kuwait, re-tender existing PPP assets following build-operate-transfer (BOT) expiry under updated PPP frameworks. These opportunities are increasingly brownfield in nature: existing assets, with history, embedded risks, and limited upside.

Why Brownfield PPPs Are Fundamentally Different

Brownfield PPPs are often treated as easier versions of greenfield projects. After all, the asset already exists, demand is visible, and construction risk is largely behind us. In reality, brownfield PPPs are a different discipline altogether.

Unlike greenfield projects, where value can be created through design optimization, construction efficiency, and early operational ramp-up, brownfield PPPs offer far less optionality. Upside is constrained by the asset's physical condition, historical performance, and regulatory environment. Downside, however, is very real, and often permanent. Existing assets come with legacy issues: deferred maintenance, aging systems, undocumented modifications, and operational practices that may not be sustainable under a new concession regime. Historical performance data, while helpful, can also be misleading if it reflects a different contractual, regulatory, or maintenance context.

In short, brownfield PPPs are not about building something better. They are about owning something wisely.

Where Bidders Commonly Get It Wrong

Despite this, many bids for brownfield PPPs fail for remarkably similar reasons. First, there is often overconfidence in operational improvement. Sponsors assume that better management, tighter cost control, or modest upgrades will unlock significant value. Sometimes this is true. More often, these improvements are already reflected, implicitly or explicitly, in competitive bid pricing.

Second, lifecycle and rehabilitation CAPEX is routinely underpriced. Brownfield assets rarely fail dramatically; they deteriorate gradually. Small underestimations, compounded over long concession terms, can materially erode equity returns.

Third, asset condition reports are treated as facts rather than scenarios. In practice, these reports reflect point-in-time observations and assumptions that may not hold once the asset is fully under new operational control.

Finally, and most critically, bids are often driven by competitive pressure rather than investment discipline. Fear of losing the asset, or of falling behind peers, can lead to aggressive assumptions that are difficult to unwind once bid momentum builds. The result is a bid that wins, but only by embedding future disappointment.

The Quiet Cost of "Winning" the Wrong Asset

Brownfield PPP mistakes are rarely catastrophic. They do not usually result in immediate failure or default. Instead, they are quietly value-destructive. Returns erode gradually as rehabilitation costs exceed expectations; cash flows become tighter than forecast, leaving little headroom for shocks; refinancing options narrow; and management attention is consumed by an asset that was meant to be stable.

Over time, what was once considered a low-risk, long-term investment becomes a source of persistent underperformance. Capital is tied up, opportunity cost accumulates and the original bid-day optimism feels increasingly distant. These outcomes rarely make headlines, but they are well known to experienced investors and lenders.

How Disciplined Sponsors Think Differently

The most successful sponsors approach brownfield PPPs with a fundamentally different mindset. They place far greater emphasis on early "Go/No-Go" decisions, before bid costs escalate and positions harden. They treat bid expenditure as capital at risk, not as a sunk cost to be justified through optimism. Rather than focusing on upside scenarios, they stress-test downside cases: higher rehabilitation costs, slower operational improvements, regulatory friction, and constrained refinancing options. They seek alignment between technical, legal, and financial assumptions, and they are willing to challenge all three. Most importantly, disciplined sponsors are prepared to walk away. In brownfield PPPs, restraint is often the most valuable competitive advantage.

Why Early Decisions Matter More Than Experience

Experience is valuable in PPPs, but it is not a guarantee of success in brownfield transactions. Many value-destructive bids are led by experienced teams. What differentiates outcomes is not how many projects a sponsor has delivered, but how early and rigorously assumptions are tested. Decision frameworks matter more than resumes. Independent challenge matters more than internal consensus, and early-stage judgment matters more than execution capability. By the time a bid is submitted, most of the value has already been locked in, for better or worse.

Redefining What "Winning" Means

As brownfield PPPs become a significant part of the infrastructure landscape, investors and operators will need to rethink how success is defined.

While winning the bid may feel like an achievement, in fact, winning the asset, in the form of sustainable returns, resilient cash flows, and long-term value creation, is what ultimately matters.

In brownfield PPPs, the real victory is not securing the concession. It is owning an asset that continues to create value long after the celebration fades.

REFLECTION 02

Why Most Brownfield PPP Bids Fail Quietly, Long Before Construction or Operations

In brownfield PPPs, value is rarely destroyed by dramatic failures. There is no collapse, no public dispute and no obvious mistake.

Instead, value is eroded quietly, in the early years, through decisions that felt reasonable at bid stage but proved irreversible afterward. This is why many sponsors only realize they "overpaid" years later, when returns are already locked in.

The First Illusion: There is No Construction Risk

Because brownfield PPPs involve existing assets, bidders often assume the hardest risks are behind them. In reality, construction risk is replaced by timing risk, such as:

- Deferred maintenance becomes accelerated rehabilitation
- Lifecycle CAPEX assumed for later years arrives early.
- Cash flows expected to stabilize instead absorb capital shocks

The asset survives. The equity absorbs the damage.

Where Value Actually Leaks: Timing, Not Magnitude

Most bids do not fail because CAPEX is underestimated in total. They fail because CAPEX arrives at the wrong time, specifically during peak debt service years, before reserves have accumulated, or while covenants are tight. At that point, even manageable CAPEX becomes destabilizing. While banks understand this instinctively, sponsors often do not, until it is too late.

The Second Illusion: The Portfolio Will Diversify the Risk

When tenders bundle multiple assets, bidders take comfort in scale. Yet portfolios do not automatically diversify risk. In practice:

- CAPEX cycles often cluster, not spread
- Demand shocks affect multiple assets simultaneously
- Management attention is stretched, not multiplied

Strong assets do not always rescue weak ones. Sometimes they simply subsidize them.

The Most Dangerous Moment Is Bid Submission

At bid submission, several assumptions become permanent, such as entry price, risk allocation, leverage structure and governance flexibility. From that moment onward, optimism can no longer be corrected, pricing errors cannot be renegotiated and optionality collapses. This is why disciplined sponsors obsess less about upside and more about irreversibility.

How Banks Really See Brownfield Downside

Banks do not ask whether a project works on average. Rather, they ask: Where does it break first? How early can things go wrong? Who absorbs the shock?

In fact, they focus on: worst-year DSCR (not averages), early stress (not terminal value) and liquidity (not elegance). Sponsors who understand this build resilience early, while sponsors who don't pay for it later.

The real question every bid committee should ask is not *"Can we win this bid?"* Instead, it is *"Does this bid survive being unlucky early?"*

If the answer depends on perfect execution, delayed CAPEX, favorable refinancing or benign operating conditions, then the risk is not priced; it is deferred.

Final Reflection

Brownfield PPPs reward discipline, not confidence. The most successful sponsors are not the most aggressive bidders. They are the ones who understand where value quietly disappears, and design bids that can absorb disappointment without destroying returns. Winning the bid is easy; winning the asset is hard.

REFLECTION 03

The Most Dangerous Question in a Brownfield PPP Bid Committee

There is a moment that occurs in almost every brownfield PPP bid committee. The analysis has been done, the advisors have presented, and the numbers appear to work. Someone senior finally says: "Are we comfortable with this bid?" Heads nod, momentum builds and the decision quietly locks in. That moment is more dangerous than it looks.

Why "Comfort" is a Trap

In brownfield PPPs, comfort rarely means risk has been eliminated. More often, it means:

- assumptions have aligned too neatly
- trade-offs have not been fully confronted
- the irreversible nature of the decision has been softened by familiarity with the asset

Comfort is often a proxy for consensus, not resilience and consensus has no protective value once the concession starts.

What Comfort Usually Hides

When a room feels comfortable, it is often because certain questions have not been asked hard enough. Consider questions such as: "What would force major rehabilitation earlier than planned?" "What happens if cash flow disappoints in the first few years?" "Which assumptions cannot be corrected after bid submission?" These are not pessimistic questions; they are structural ones. Brownfield PPPs do not fail because everything goes wrong. They underperform because one or two things go wrong early, when flexibility is lowest.

The Question that Actually Matters

Instead of asking whether the bid feels comfortable, experienced sponsors ask a different question: *"What would have to go wrong, early, for this bid to permanently underperform?" Not collapse, not fail dramatically.* Simply underperform, quietly, irreversibly.

If the honest answer is "not much," the bid is relying on luck rather than structure. A bid that holds only when everything goes to plan has not removed risk; it has simply pushed it further down the timeline, where it will surface at a far higher cost.

Why Brownfield PPPs are Unforgiving

Greenfield projects offer natural checkpoints, such as design reviews, construction milestones and commissioning, where assumptions can be revisited. Brownfield PPPs offer very few. Once the bid is submitted, the commercial terms that drive returns are effectively settled, leaving little room to change course if early assumptions prove wrong. This is why early decisions carry disproportionate weight, and why comfort at bid stage is so easily mistaken for confidence.

A Final Thought

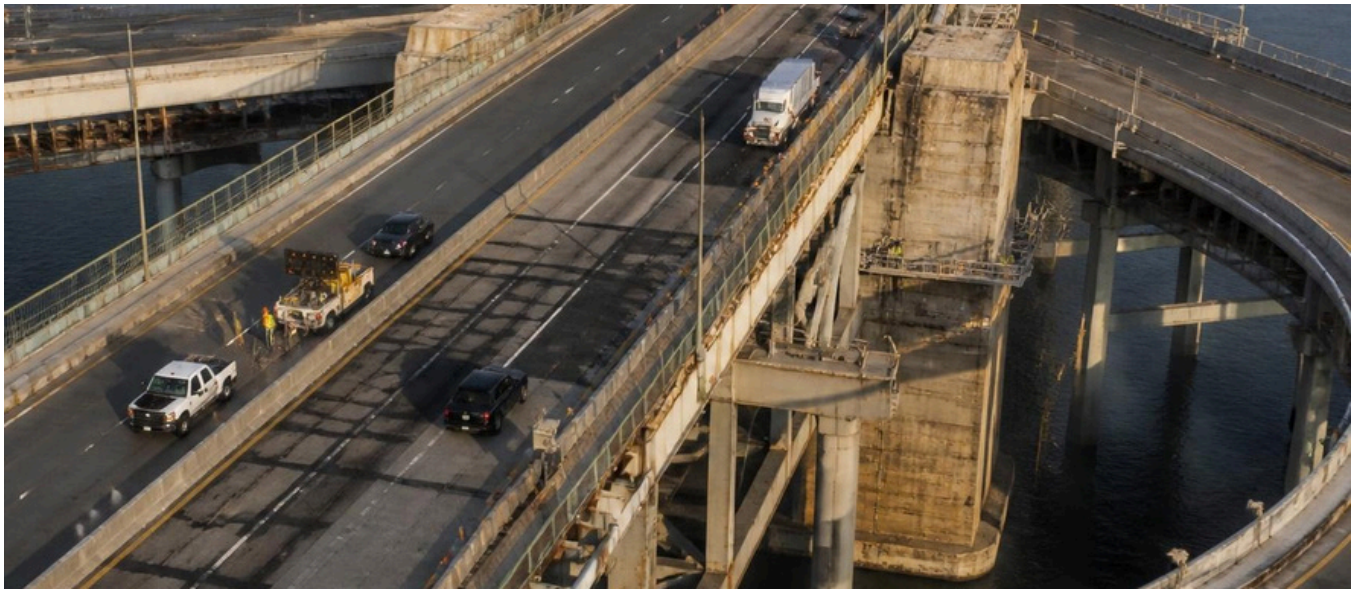
Confidence comes from understanding downside. Comfort comes from not looking at it too closely. In brownfield PPPs, the most dangerous bids are not the ones that look risky, but the ones that feel comfortable. Comfort is not a risk metric.

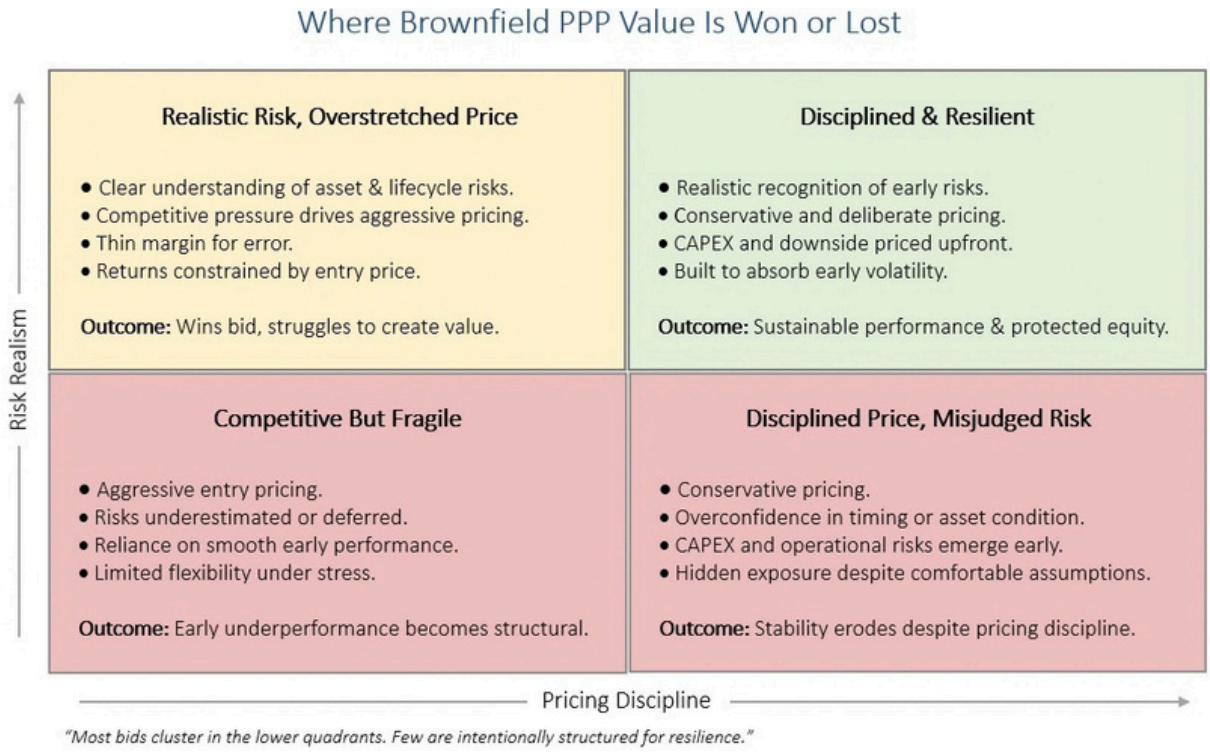
REFLECTION 04

What Serious Sponsors Do Differently in Brownfield PPP Bids

Brownfield PPPs rarely fail because sponsors misunderstand the asset. They fail because sponsors misjudge what actually matters at bid stage. On the surface, most bids look similar: the same data rooms, the same advisors, the same financial models, and often, similar assumptions. Yet outcomes diverge significantly over time.

Some sponsors preserve value, while others spend years managing underperformance they effectively locked in on day one. The difference is not access to information; it is discipline. This difference becomes clearer when viewed through how sponsors approach pricing and risk at bid stage.





Serious Sponsors Prioritise What Cannot Be Fixed Later

At bid stage, many discussions revolve around improving returns: that is optimizing the financial model, refining assumptions, and enhancing competitiveness. However, serious sponsors look elsewhere. In fact, they focus on what will become irreversible once the bid is submitted, such as entry price, risk allocation, leverage structure, and the timing of capital obligations. By this, they understand that most problems in brownfield PPPs are not operational; instead they are structural. Such structural issues that cannot be corrected after financial close.

They See the Early Years as Critical

In many bids, downside is assessed over the full concession life. Serious sponsors concentrate on a much narrower window, i.e. the first few years after takeover, where

- asset condition assumptions are tested,
- rehabilitation requirements emerge, and
- cash flows are most exposed.

If something goes wrong early, there is little time or flexibility to recover given that later-year upside does not repair early-year damage. This is why disciplined bidders do not ask whether a project "works" in the long term, but they ask whether it survives being wrong early.

They Do Not Rely on Structure to Solve Risk

Labels such as "availability-based" or "demand-based" often create a sense of comfort. However, serious sponsors look past structure. They focus on who ultimately absorbs downside, how quickly issues translate into cash impact and whether protections are real or merely contractual.

Thus, they recognize that risk does not disappear because it is allocated; rather it only shifts, and sometimes returns.

They Price What Others Prefer to Defer

Competitive pressure often pushes bidders toward optimism by delaying capital expenditure, assuming smooth operations or relying on favorable conditions, whereas serious sponsors take a different approach. They confront uncomfortable assumptions early:

- What if rehabilitation is needed sooner?
- What if performance is weaker at the start?
- What if flexibility is more limited than expected?

These are not worst-case scenarios; they are plausible realities. If they are not priced at bid stage, they are paid for later.

They Separate Winning from Value Creation

The pressure to win can quietly reshape certain decisions such as tightening assumptions, accepting marginal risks or stretching beyond internal thresholds. Serious sponsors maintain a clear boundary by treating bidding and investing as two distinct decisions. A bid that wins but compromises long-term value is not a success; it is simply an early-stage loss.

A Concluding Observation

In brownfield PPPs, the asset is already built. The real construction happens at bid stage, in the form of assumptions, risk positions, and pricing discipline. Some sponsors build resilience, while others build fragility. The difference is rarely visible at submission, as it becomes clear over time. In effect, serious sponsors are not defined by how they win, but by what they refuse to accept before they do.

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The Water PPP Hub: A tool for governments to develop water PPP projects



Neil Dhot
Executive Director, AquaFed

Although water PPP deals have increased in both number and size in certain regions over the last few years, globally the trend has been fairly stagnant. At the same time, progress on increasing access to safe drinking water and sanitation has also slowed down, and overall, the world is not on track to achieve UN SDG 6 by 2030.

PPPs are one of the solutions for governments to achieve water and wastewater targets. But as we know, PPPs are complex and risky for private operators and governments, and water can be a very political issue. This is why most governments and public authorities, particularly in the global south, need as much help as possible to develop even one water PPP project, let alone a pipeline of bankable opportunities.

In this interview, Neil Dhot explains why AquaFed, the federation of private water operators and partner organisations, created the Water PPP Hub and how it helps governments. Most importantly, he calls on governments to work in partnership with the Hub and to use it to develop their understanding and expertise on water PPPs.

What is the Water PPP Hub?

We launched the Water PPP Hub in January 2026, to help governments and public authorities, particularly in the Global South and Central Asia, and those who work with them, to grow the pipeline of bankable and well-designed water PPP projects.

Specifically, the Hub is an online capacity-development and training portal which highlights, simplifies and explains the best practical methodologies and tools available on all aspects of the PPP process, through summaries, podcasts and interviews.

The Hub is about showing the pros and cons of a PPP and the realities of designing and implementing them. The technical information on the Hub is from independent, trusted and validated sources, for example, development banks and UN-accredited institutions. We are adamant that information must be from independent sources and the Hub itself is neutral.

It is accessible via www.waterpppphub.org. It is free of charge and all users need to do is to register.

Also, we have had full endorsement and support for the Hub from the development banks, the UN and governments. They are encouraging us to use their material and are helping us to promote the Hub to governments.

"We are trying to make life easier for governments and public authorities."

— Neil Dhot, AquaFed

Why is the Hub needed?

We are trying to make life easier for governments and public authorities. We know they are often not well resourced. Take the example of a small PPP unit in an African capital, which will be working across several infrastructure sectors. They will have almost no time to get their heads around water PPPs, which are very specific, and not all governments can afford the technical assistance or consultancy they need.

Then there is the challenge of finding information. Although there is a lot of excellent material about water-related PPPs, it is spread across many different websites and publications and hard to find. Likewise, the political, legal and organisational differences between countries make it difficult for governments to identify what is relevant, suitable and replicable for their local situations.

So, the Hub is there to collect all the best information and put it in one place, in a way that is easy to find. But we don't stop there: the Hub also simplifies the information as much as possible with short summaries and videos, for example, to bring the information to life and make it more user-friendly.

Also, the timing of the Hub is such that it is one of our contributions to the UN Water Conference that is happening in Abu Dhabi in December. We got the Hub up and running at the start of the year so that by December, it is established as a global initiative to help progress access to safe drinking water and sanitation.

Who is the Hub for?

The Hub is primarily for governments and authorities but we also hope consultants and experts will find the material useful. We have had a steady stream of new registrants since we launched and it has been a real mix of people.

What information does the Hub have?

It has up-to-date case studies on water PPP projects (including water, wastewater, reuse and desalination) and good practice guides and methodologies on the different steps of the PPP process. We are trying to cover the full cycle, from the essential governance (policy, legal and regulatory frameworks), project inception and initial feasibility, right through to contract monitoring and re-tendering.

We're constantly updating the content and adding new material. We make a set of new updates every six weeks.

To make it widely accessible, we are also translating the summaries and guides we have produced into French and Spanish. We certainly have a lot more to do and a lot of content to add but are working hard on it!

How can governments be involved?

We really want government staff to register and use the content as they are our primary audience. But more than that, we are looking for partnerships with individual governments where they can request specific or bespoke information tailored to what they need and we deliver it. This is when we will really know the Hub is a tool that is adding value. If you are in government and are interested, please do not hesitate to contact me via LinkedIn or neil.dhot@aquafed.org.

It sounds like you are competing with established consultants?

No not at all. We are trying to help them, not compete with them. We know that in most cases, a government will reach out to consultants. So we are trying to equip the consultants with extra materials that help them to help their clients get to grips with water PPPs faster. Also, we hope government staff use the material to help them increase their basic knowledge and fundamentals before they approach consultants.

How can consultants help and get on board?

It is essential that experts and consultants engage with us as they are best placed to tell us what the current big issues are and which topics we should prioritize.

We would really like experts to come on and record some short videos with us to discuss various aspects of PPPs and to discuss information in certain publications. We have already had some brilliant experts on from both consultancies and the development banks. We promote these short videos on LinkedIn and it leads to a lot of people going on to the Hub, so it certainly provides good visibility for experts!

WAPPP

When PPPs Become Off-Budget Debt: Lessons from the Andhra Pradesh Model



Rahul Reddy Talakola
Policy Analyst: Infrastructure and PPP Reforms

I recently finished Ray Dalio's *How Countries Go Broke*. Dalio is an influential American investor, philanthropist and the founder of Bridgewater Associates, which grew into the world's largest hedge fund.

I was struck by how closely Andhra Pradesh, a southern state of India, is living Dalio's Big Debt Cycle in regional miniature: too much borrowed, too little earned, and an alphabet soup of PPPs that quietly stand for "Public Pays Permanently."

Why Andhra Pradesh is a useful PPP case study

Andhra Pradesh has been one of India's early laboratories for PPPs. Its Infrastructure Development Enabling Act, 2001, created a statewide legal framework intended to attract private participation in the design, financing, construction, operation and maintenance of physical and social infrastructure. Roads became the principal testing ground, followed by ports, airports, urban services and tourism.

The record is mixed. There have been genuine gains: a World Bank-supported road-sector program awarded two toll-road PPP concessions, covering 420 km and costing about ₹2,694 crore; both were completed and are in service. Yet the same program also encountered delays, cost escalation, lower-than-expected traffic and institutional weaknesses. An earlier audit by the Comptroller and Auditor General of India (CAG) of Andhra Pradesh's road PPPs covered 33 projects with an estimated cost of ₹8,349.73 crore. It identified projects taken forward without robust viability assessment, changes in scope and procurement approach, land and utility delays, and weak protection against excessive public exposure.

In the past, the government allowed land to be mortgaged for PPPs without adequate safeguards. This helped concessionaires raise funds from financial institutions, but it also led to allegations that funds were diverted to other projects, and to delays that caused significant losses to the public exchequer. In response, the state introduced mortgages of leasehold and revenue rights in place of land or asset mortgages, escrow account mechanisms, and fixed shareholding patterns in SPVs, with substitution permitted after lock-in periods.

This is why Andhra Pradesh matters. Its experience does not show that private participation is inherently harmful; it shows that a PPP works only when project selection, demand forecasts, public support, risk allocation and contract management are disciplined. The current pipeline again extends across roads, airports, health, water, tourism and industrial infrastructure. The question is therefore not whether Andhra Pradesh should use PPPs, but whether each proposal demonstrably creates public value after land, incentives, guarantees, annuities and other contingent liabilities are fully priced.

Stage 1: When borrowing felt clever

Dalio's cycle begins with "good" debt, that is, borrowing that funds productivity, growth and future tax capacity. Andhra Pradesh once had that window. Net debt was comparatively low after bifurcation, and between 2014 and 2019 the rhetoric was all about a new capital.

From 2019 to 2024, the new government under Y.S. Jagan Mohan Reddy shifted its focus to investing nearly 50% of its budget in revenue-generating infrastructure, such as ports, harbors and Rurban infrastructure corridors, while keeping borrowing low. The Andhra Pradesh Global Investors Summit, held in Visakhapatnam on March 3–4, 2023, attracted 340 investment proposals worth a total of ₹13 lakh crore ($157 billion). These proposals spanned 20 sectors and aimed to create approximately 600,000 jobs across the state. PPPs also ventured into agriculture and allied sectors, such as secondary food processing and animal husbandry, with responsibility, risk and revenue shared equally between the public and private sectors during this period.

Very quickly, however, chronic revenue deficits became the norm from 2024–25 onward. Revenue receipts of about ₹2.18 lakh crore now sit against revenue expenditure of ₹2.51 lakh crore, leaving a revenue deficit of ₹33,186 crore. Economists warn that when governments use debt to fill operating gaps instead of funding assets that raise incomes, they are no longer investing; they are financing denial. Andhra Pradesh's budgets since 2024 have done exactly that. Borrowed money is funding salaries and incentive-laden private projects, while capital outlay lags behind.

Stage 2: Debt grows faster than the state

Between 2024 and 2026, Andhra Pradesh's debt-to-GSDP ratio climbed to about 36%, higher than the median large state. Projections now place public debt at around ₹7.11 lakh crore by 2026–27, with more than ₹3.6 lakh crore added in the last two years alone. On top of that, outstanding government guarantees to PSUs and state corporations were already estimated at ₹1.55–1.77 lakh crore, or about 11% of GSDP, between 2024 and 2026: a classic off-balance-sheet liability.

In 2025–26, the state plans net borrowing of roughly ₹79,000 crore just to make the budget add up. Debt is no longer being used as a development tool, but as a crutch. By November 2025, borrowings had nearly reached the full-year target while capital spending lagged, and the Comptroller and Auditor General openly warned of a "precarious debt cycle": loans are coming in, but the concrete is not going out.

PPPs: Off-budget illusions, on-book pain

Dalio shows how governments facing rising debt and weak revenues resort to creative financing, such as guarantees, special purpose vehicles, PPPs and other schemes, to keep the show on the road. Andhra Pradesh is now a textbook example. Consider these PPP frontiers:

Health and medical education

The state plans to run around 10 new medical colleges under PPP, arguing that its finances are too weak for full public development. The problem is not the use of PPPs as such; it is that these colleges and hospitals are being handed to the private sector after the government has already completed 70–90% of construction on its own. Policy notes suggest up to 60% project support from government (Centre and State combined), with private operators gaining long-term control of hospitals built on public land. This is arguably worse than privatization: the public bears the capex and regulatory risk, while the private party gains quasi-permanent control of a core public-service asset.

Industrialization, tourism and real estate wrapped as development

Almost every industrial and tourism project allotted through the State Investment Promotion Board (SIPB) route shows hundreds of crores in NPV losses to the state, public land tied up for decades, and revenue shares so thin that the government's return on every rupee is a fraction of the private partner's earnings. This is despite the state effectively financing these projects through incentives ranging from 45% to 77% of project costs. None of these were public-use infrastructure projects or projects of unique intellectual value; all were typical commercial and real estate ventures.

This pattern mirrors Dalio's "bad debt" category: obligations that create no net fiscal capacity to service themselves. An additional layer of leverage comes from the Project Development Fund (PDF), which provides interest-free loans to such PPP projects. In practice, the state borrows on interest-bearing terms from funding agencies and then extends interest-free support to concessionaires. Without clear limits on tenor, amount and repayment triggers, this creates a structural advantage for private partners while loading long-term financing risk onto the state exchequer, contrary to PPP risk-sharing principles.

Instead, the state should:

- Treat the Project Development Fund primarily as a revolving facility for pre-investment project-development costs, charging interest at or above the government's own borrowing rate (which remains below market rates), rather than as an open-ended operational viability bridge.
- Recover project-development expenditure from successful concessionaires through a capped service charge (no more than 1.5 times total expenditure), without burdening line departments.

P-HAM

Under the Private-Led Hybrid Annuity Model, private developers are expected to secure 100% of the project funding, and in turn the state ends up paying an estimated effective interest rate of 16–18% or more. This is equivalent to borrowing from private lenders at high interest rates, like a borrower who has lost their credit rating and can no longer access cheaper, formal channels.

PSUs and guarantees

CAG reports have flagged weak governance of Andhra Pradesh's PSUs, with losses, delayed projects and mounting contingent liabilities from guarantees. These guarantees are politically convenient, since no one sees them in the headline deficit number, but fiscally dangerous, because they convert into real debt when projects underperform.

In other words, PPPs here are not modeled as risk-transfer instruments but as risk concentrators. The state keeps the fixed obligations (guarantees, assured offtake, viability gap funding, incentives and long-term land transfers), while handing away the variable upside (profits, asset control and land appreciation). These indicators show how PPP projects should not be done, and they undermine the very rationale for promoting PPPs.

Stage 3 and beyond: From PPP to "please purchase our paper"

Stage 3 is the moment when markets begin to question government debt and the state resorts to more desperate financing: rolling over short-term debt, pushing liabilities into SPVs and leaning on captive buyers. Andhra Pradesh is inching toward that zone:

- Debt and guarantees together are approaching nearly half of state GSDP once outstanding liabilities and explicit guarantees are added together.
- Revenue deficits persist, meaning fresh borrowing funds salaries, interest and subsidies, not just long-gestation projects.
- Capital execution lags even when funds are available, suggesting that it is the political priorities of the TDP-led coalition government, which is funding its own private projects and interests, rather than cash constraints, that are driving under-investment in productive infrastructure.

At this point, adjustment is no longer optional. As debt service and committed PPP payouts rise, the coming years will face the brutal arithmetic of raising taxes, cutting welfare, selling assets or renegotiating contracts that were once trumpeted as "path-breaking PPPs."

The moral of the Andhra Pradesh experiment

The harsh lesson from How Countries Go Broke is that form never saves you from math. Calling something a PPP does not change discounted cash flows; shifting debt into guarantees does not change who ultimately pays; and borrowing for salaries and subsidies instead of revenue-generating capital infrastructure, such as ports, harbors and power, does not change the compound interest table.

Even at an interest rate of around 11% on state obligations (the base case), against current GSDP growth of 7%, the approximate per-capita present-value burden over 20 years would be about ₹190,000. That burden rises in relative terms, because interest compounds faster than income, eventually forcing restructuring or austerity.

Andhra Pradesh today stands as a cautionary footnote: a state that copied the vocabulary of modern finance, such as PPPs, leverage, guarantees and capital recycling, but ignored its discipline. The real question is no longer whether the state is on a risky path; it is how much of tomorrow's growth has already been spent to pretend that today's model still works.

When too much "bad debt" accumulates, the adjustment is never gentle. For Andhra Pradesh, that adjustment could mean austerity budgets, stalled welfare and the sale of the very infrastructure now being given away, such as ports and medical colleges, all wrapped in the language of "reform" and "fiscal responsibility."

The core issue is not that every PPP is fiscally harmful. A well-designed PPP can improve efficiency when demand risk, construction risk, lifecycle maintenance and revenue-sharing are allocated to the party best able to manage them. The concern in Andhra Pradesh arises when PPPs are used less as a value-for-money procurement tool and more as a substitute for upfront fiscal capacity, especially where government support, guarantees, land transfers, annuity-style payments, tax concessions or assured offtake continue to leave the state exposed.

Once that happens, four consequences follow:

First, debt can rise even when projects are described as privately financed, because the state still bears explicit debt, viability-gap support, incentives and land worth 40–77% of project costs, deferred payment obligations, and contingent liabilities through guarantees and state-linked corporations.

Second, future budgets become less flexible, because contractually committed payments crowd out discretionary spending on maintenance, welfare and fresh productive capital investment.

Third, public assets can migrate into long-duration private control at a time when the state's bargaining position is weak, reducing future non-tax revenue options. In some cases, land may end up in the hands of lenders when mortgage rights are granted at the government's discretion without assessing the private firm's financial standing, which tends to happen when projects are not awarded through competitive tendering.

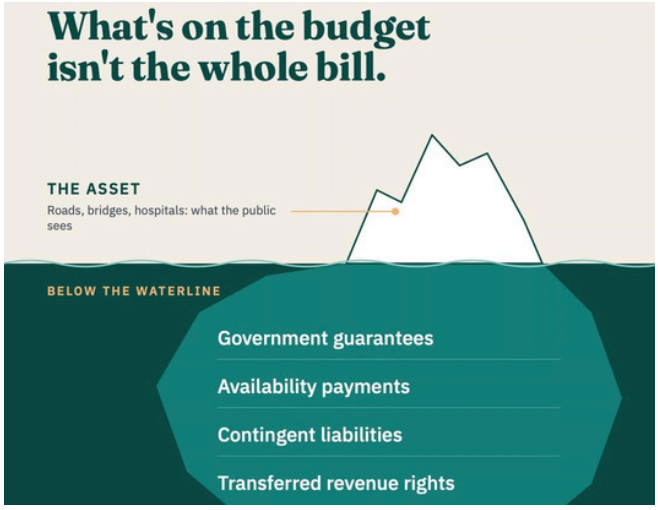
Fourth, if the underlying projects do not raise productivity, employment or tax capacity enough to service their embedded obligations, the result is not abundance but a transfer of public fiscal capacity into private cash-flow streams.

This is the point at which the concept can be meaningfully connected to deflation. In a debt-heavy state that uses PPPs to bridge fiscal weakness, the public sector may create asset shells without creating equivalent purchasing power, incomes or tax buoyancy. That tends to weaken demand rather than expand broad prosperity. In practical terms, private concessionaires may enjoy protected returns while the wider regional economy faces lower public investment multipliers, arrears pressure, reduced fiscal headroom and politically difficult expenditure compression.

Recent reporting on Andhra Pradesh aligns with several warning features of that framework. Revenue expenditure has persistently exceeded revenue receipts, borrowing has become a large part of annual financing, and debt-service claims have grown large relative to budget resources. If PPPs and state guarantees are then layered on top of this structure without robust project cash generation, the system can look solvent in form while becoming brittle in substance.

Dalio's framework also helps refine the deflation link. In heavily indebted systems, the danger is often not consumer-price deflation in the textbook sense but debt-deflation pressure: debt contracts stay fixed while the real economy weakens, fiscal spending tightens, asset monetization accelerates, and the state may be forced into austerity, renegotiation or distressed privatization. That is a very different road from Elon Musk's recent vision of technology-led abundance, but both stories revolve around one common variable: the relationship between obligations on paper and the real capacity of the economy to produce and distribute value.

"The harsh lesson from How Countries Go Broke is that form never saves you from math." — **Rahul Reddy Talakola**



The Practical Andhra Pradesh Context

A realistic reading of Andhra Pradesh should separate three layers.

Layer 1: Headline narrative

The public narrative may present PPPs and privatization as efficiency tools that bring speed, capital and managerial quality when state finances are tight. That claim can be partly true in selected sectors, especially where the state genuinely lacks execution capacity and where contracts are tightly structured around measurable service outcomes. That has not, however, been the case in any of the sectors or project allotments of the last two years.

Layer 2: Fiscal arithmetic

The harder question is whether the state is using PPPs because they are the most efficient procurement model or because direct budgetary space has already narrowed sharply. The reported dependence on borrowing, large revenue deficits and the high share of debt servicing in expenditure suggest that fiscal stress is central rather than incidental. In that environment, PPPs can easily become a postponement device rather than a financing innovation.

Layer 3: Distributional outcome

Even where a PPP produces a physical asset, the distribution of gains matters. If public land, subsidies or guarantees are transferred while user charges rise, public access narrows and future state revenue rights weaken, the model may deepen inequality even if gross investment numbers look strong. That is where the political economy becomes serious: a state can appear to be developing while actually hollowing out its future fiscal sovereignty.

PPPs are not the problem; using them to hide fiscal stress is. Every PPP delivers something the public can see: a road, a bridge, a hospital. What sits below the waterline is often far larger: government guarantees, availability payments, contingent liabilities and transferred revenue rights.

Further Effects if the Present Pattern Continues

If the present combination of borrowing dependence and aggressive PPP-led privatization continues, several medium-term effects become plausible.

- **Higher committed expenditure:** Annuities, guarantees, lease-linked obligations and support payments can harden into quasi-fixed claims on future budgets.
- **Lower discretionary development spending:** Once committed payments such as incentives, viability gap funding (VGF) and subsidies rise, genuinely productive public investment may be squeezed out. The current Andhra Pradesh government has gone as far as providing VGF to private concerns in the name of tourism development, and to regular commercial projects, including production and real estate ventures. This ignores the fact that VGF was designed as a grant for physical public infrastructure.
- **Pressure for user-fee escalation:** Private operators typically seek bankable returns, which can push tariffs, fees, rents or availability payments upward unless the state subsidizes them.
- **Asset monetization under weakness:** Governments facing cash stress often privatize or concession public assets from a position of fiscal weakness, which can lead to inferior long-term value capture.
- **Social dualism:** Privately managed enclaves may improve service quality for paying users while the general fiscal base weakens, creating uneven access and fragmented development.
- **Political temptation toward accounting opacity:** More liabilities may be shifted into corporations, guarantees or deferred commitments that do not immediately appear in the headline deficit.

"If the state retains most of the downside risk, the PPP may amount to privatizing the upside rather than transferring risk."

— Rahul Reddy Talakola

This trajectory can create a paradox. The state may speak the language of modernization and efficiency, yet the macro effect can be contractionary for broad-based welfare, because more future income is pre-committed to servicing debt and private claims. That is the sense in which the Andhra Pradesh story can be linked to a deflationary model—not through a happy abundance of cheap goods, but through a debt-saturated system that weakens effective demand and compresses public economic capacity.

Andhra Pradesh is now relying excessively on debt-backed PPP privatization, which suppresses the state's spending power, transfers future revenues to private operators and reduces the economy's effective demand base, even as official narratives celebrate investment.

Policy Test for Andhra Pradesh PPPs

To make the argument practical rather than rhetorical, every major PPP proposal in Andhra Pradesh can be tested against five questions.

Test Question	Why It Matters
Does the project raise future tax capacity or only shift current financing pressure?	Debt is sustainable only when it expands the income base that services it.
Who bears demand risk, political risk, and residual asset risk?	If the state keeps most downside risk, the PPP may be privatization of upside rather than transfer of risk.
What is the full public support package including land, guarantees, tax waivers, annuities, and viability support?	Headline private investment can conceal substantial state subsidy and contingent liability.
What happens to user affordability and access?	Efficiency that reduces public access can worsen social outcomes even if the project is financially bankable.
Is the NPV to the state positive after all contingent obligations are recognized?	Fiscal realism requires looking beyond initial capex savings to lifetime public cash flows.

Conclusion

The central issue is not whether more projects are being announced, or whether private investment is being attracted, but whether borrowing and PPP commitments are creating future productive income or merely advancing future revenues into the present. If the answer is the latter, then the state is not moving toward abundance; it is moving toward a debt-deflation-style squeeze in which public finance, development autonomy and social equity all come under pressure. This case shows clearly how PPPs should not be structured.

Recommendation

Andhra Pradesh should:

(a) clearly distinguish between a Project Development Fund (PDF) for pre-investment project preparation and any Bridge Fund used to smooth early-year cash flows;

(b) specify a maximum tenor (e.g., 3–5 years), along with percentage and interest-rate limits, for Project Development Fund and Bridge Fund support;

(c) mandate discounted cash flow (DCF) tests to confirm that the Bridge Fund does not create a negative NPV for the state; and

(d) require that the cost of interest-free support be explicitly valued and factored into bid evaluation, to avoid unintended subsidies to private partners.

Limited use of NPV in selection criteria: The Andhra Pradesh PPP policy mentions NPV mainly in the context of viability analysis and project appraisal, but does not embed it firmly in bid-parameter design. The policy should encourage value-for-money (VfM) and Public Sector Comparator (PSC) analysis when granting incentives and subsidies. Other states explicitly use NPV in their selection criteria for grant-seeking projects, for example the lowest NPV of subsidy or O&M cost, the lowest NPV of operational grants, or the highest NPV of payments to the state, such as revenue share and upfront premium over the concession period. They also require a base-value range for the single bid parameter to be computed at the project-development stage and used in evaluation.

Above all, the state should adopt a transparent bidding process in place of discretionary allotment. Competitive bidding is the foundation of any successful PPP: it remains stable across changes in government and builds long-term confidence among private investors.



05

The Long-Term Imperative: Dispute Avoidance and Mediation

WAPPP

Beyond Dispute Resolution: How Mediation Resolved Serbia's Largest Environmental PPP Dispute (€400M Belgrade Waste Management PPP Project)



Blažo Nedić *Attorney and internationally accredited mediator, facilitator and trainer; rule of law consultant based in Belgrade, Serbia*

1. Context and significance

The Belgrade Waste Management PPP[1] is Serbia's first major environmental public–private partnership and one of the largest infrastructure projects in the Western Balkans. Conceived to transform Belgrade's outdated waste management system, it addresses the remediation of the Vinča landfill, operational since 1977 and long regarded as one of Europe's largest uncontrolled dumpsites.

For over four decades, Vinča accumulated millions of tons of waste without adequate lining, leachate control, or gas collection. Spreading over 45 ha and reaching up to 100 meters in height, it was a site of frequent fires, methane emissions, and slope instability that endangered public health and nearby communities, while the site's proximity to the Danube heightened regional environmental risks.

The Project's ambition was transformative: to replace long-standing environmental hazard with a sustainable, circular waste management system. Yet the governance of such a partnership was inevitably complex. It involved overlapping responsibilities between the City of Belgrade and other municipalities, private investors, contractors, and international financial institutions, all bound by distinct legal, financial, and social accountability frameworks.

"The PPP's complexity extended beyond engineering, it demanded alignment between municipal authorities, concessionaires, and international financiers." **— Blažo Nedić**

This complexity extended into the social realm, where the Project affected the lives of some of Belgrade's most marginalized citizens, some of whom alleged that it caused physical and economic displacement, loss of income, inadequate resettlement and housing, and reduced access to education and social services.

2. The public–private framework

The PPP was structured as a 25-year Design-Build-Finance-Operate-Transfer (DBFOT) concession co-financed by the EBRD, International Finance Corporation (IFC), and other international funders. The implementing company, Beo Čista Energija d.o.o. (Beo Clean Energy), brought together global expertise and investment through a consortium including Itochu Corporation, the Marguerite Fund II, and major waste management operators such as SUEZ and later Veolia.[2] International engineering and environmental consultants, including Arup, were engaged to support Project design, remediation planning, and implementation oversight. The PPP's complexity extended beyond engineering; it demanded alignment between municipal authorities, concessionaires, and international financiers under strict environmental and social standards (EBRD's Performance Requirements and IFC's Performance Standards).[3]

This ambitious and technically demanding Project combined engineering, environmental, and social components and therefore required sophisticated coordination among public, private, and financial stakeholders.

3. The social reality: A human dimension to infrastructure

For decades, informal waste picking at Vinča was the only source of livelihood for many Roma families. Their work, though unregulated and unsafe, represented both survival and community identity. When the landfill rehabilitation began, these families faced not just physical displacement but the loss of their economic and social anchors.
The situation reflected a broader structural challenge in the region: the continuing marginalization of the Roma population, whose access to education, housing, and formal employment remains precarious. Their concerns, about housing conditions, affordability of utilities, and the lack of livelihood opportunities, were legitimate, complex, and deeply personal.

When the complaint reached IPAM in late 2020, it was clear that no single institutional actor could unilaterally resolve these issues. Their case emphasized a fundamental challenge in modern infrastructure governance - how to reconcile large-scale environmental improvements with the protection of those most affected by them.

4.Why was mediation not just appropriate, but necessary process

The dispute was multi-dimensional, involving:

- The City of Belgrade, responsible for resettlement and social policy, City of Šabac, and Municipality of Vladimirci;
- The private concessionaire, tasked with delivering technical works;
- 17 Roma families, to be resettled from the original Vinča landfill site; and
- A11 Initiative for Economic and Social Rights, and CEE Bankwatch, CSOs representing and advising Roma families in the process.

In addition to the above, the EBRD Project team and other international funders, responsible for the implementation of the PPP project, and ensuring compliance with international social and environmental standards, were engaged as stakeholders. In the Vinča case, mediation was not simply one of several available tools, it was the only process capable of bridging the gap between the formal structures of a PPP and the experience of those affected by it. Each formal actor operated under a different legal and institutional framework. In disputes of such complexity, where multiple layers of responsibility intersect and power imbalances are profound, adversarial or administrative procedures offer limited relief. They allocate blame but rarely produce solutions.

The risks of escalation were numerous. For the project, unresolved grievances could have triggered delays, contractual penalties, reputational harm, and even a formal compliance investigation, undermining investor confidence and the broader credibility of PPP initiatives in Serbia. For the affected families, the absence of acceptable solutions would have meant continued housing insecurity, unmanageable debt, and deepening social vulnerability, further eroding trust in public institutions. At a systemic level, a failure to demonstrate effective social risk management through dialogue could have discouraged other investors from entering PPP arrangements in socially sensitive sectors, limiting Serbia's capacity to attract sustainable finance. Mediation, within IPAM's Problem Solving function, provided a voluntary, confidential, and interest-based platform for dialogue. It enabled the City of Belgrade and other local governments, the Project consortium, and the affected families to re-engage in conversation that had, until then, been fragmented or absent. Most importantly, it created an environment where all voices could be heard, especially those of families whose concerns were often drowned out by technical or bureaucratic priorities.

5. The design of the IPAM Problem Solving process

The IPAM Problem Solving function is firmly grounded in the principles of mediation: voluntariness, inclusivity, good faith, and co-design. In the Vinča case, these principles were brought to life through a tailored and adaptive process design.

Rather than seeking a single, standardized solution, the IPAM team facilitated a series of parallel dialogues, each addressing a different set of circumstances and needs. This approach reflected the recognition that complex disputes demand differentiated pathways. What emerged was not a single negotiation, but a carefully tailored web of interdependent conversations, each one requiring its own balance of trust, timing, and sensitivity.

The process unfolded in three interlinked stages:

i) Preparation and trust-building (2021–2022): The IPAM team engaged each party in bilateral consultations to identify representatives, build trust, and establish jointly agreed Ground Rules.

Given the social sensitivity, significant time was devoted to preparing the affected families, ensuring understanding of the process, and guaranteeing confidentiality.

ii) Dialogue and negotiation (2022): Over the next year, the IPAM team facilitated a combination of joint and bilateral meetings with the City of Belgrade and other two local governments, Beo Čista Energija d.o.o., and the 17 affected families. Recognising that each family, and each municipality, faced unique circumstances, from housing deficiencies to debts and income loss, multiple parallel negotiation tracks were established.

iii. Agreements and monitoring (2023–2025): The mediation culminated in 17 individual Problem-Solving Agreements, signed in July 2023. Each agreement addressed the specific needs of one household, covering permanent housing, utility debt resolution, access to social protection, and livelihood restoration. A formal Monitoring Plan was adopted, ensuring ongoing supervision by IPAM and regular reporting by the parties.

This design of the intervention was, in itself, a mark of innovation. It reflected an understanding that procedural fairness and relational repair cannot be mass-produced, they must be built, and individually tailored step by step, through authentic human engagement. Effectively, we conducted 17 different negotiations and achieved 17 tailored solutions. This family-by-family, and municipality-by-municipality design represented an extraordinary innovation: it combined the structure of institutional mediation with the personalisation of community-based dialogue.

6. The work and achievements of the IPAM team

Behind this process stood a dedicated IPAM team that combined institutional discipline with human empathy. Their work was as much about creating structure as it was about creating safety that allowed both institutions and individuals to speak truthfully and listen openly.

Throughout the two-year process, the IPAM team:

- Rebuilt dialogue where communication had previously collapsed;
- Maintained inclusivity by ensuring that every affected person could participate meaningfully, regardless of social or cultural barriers;
- Bridged institutional divides between international financiers, municipal authorities, and private partners;
- Sustained momentum through political changes, pandemic restrictions, and shifting operational realities; and
- Created replicable tools for future accountability cases, such as co-designed Ground Rules, joint monitoring plans, and culturally sensitive mediation protocols.

The IPAM team's facilitation model combined procedural clarity with creativity. It was mediation in its purest sense: guided but not imposed, structured yet adaptable. The result was not only a series of negotiated agreements, but a restoration of confidence in institutional accountability and the credibility of mediation as a tool for development governance.

7. Challenges

The process unfolded against a backdrop of shifting institutional and political landscapes. Elections in Belgrade changed leadership; the pandemic disrupted planned meetings; administrative turnover tested continuity. At times, even the act of bringing the right people to the same table was negotiation in itself.

Yet, it was precisely these challenges that underscored the importance of process resilience, the ability of mediation to adapt without losing integrity. The success of the IPAM team lay in its persistence: in maintaining continuity, ensuring communication, and keeping all parties engaged even when external circumstances shifted.

8. Outcomes and impact

By the summer of 2023, the process culminated in a set of Problem-Solving Agreements that addressed housing, utilities, social protection, and livelihood restoration for all affected families. But beyond these tangible results, the process delivered something far more valuable: a renewed sense of dignity, recognition, and connection. The agreements created clear, implementable commitments. The subsequent monitoring framework ensured accountability and transparency.

Notes

1. https://www.ebrd.com/home/work-with-us/projects/psd/46758.html
2. https://www.bcenergy.rs/belgrade-waste-management-ppp-project/ppp- project-delivery-structure/
3. https://www.ebrd.com/home/who-we-are/ebrd-values/ebrd-environmental-social-sustainability/reports-and-policies/performance-requirements.htmlhttps://www.ifc.org/en/insights-reports/2012/ifc- performance-standards
4. https://www.ebrd.com/home/what-we-do/projects/independent- project-accountability-mechanism/case-registry/belgrade-solid-waste-ppp- request-2.html

Key lessons:

i. Mediation bridges systemic divides. Complex PPPs require platforms that integrate legal, technical, and human dimensions. Mediation is uniquely positioned to do so.

ii. Inclusivity determines legitimacy. The meaningful participation of Roma families facilitated by IPAM's design, was not symbolic, it was the foundation of durable outcomes.

iii. Co-design sustains commitment. Jointly developed rules and agendas fostered ownership and commitment to ensure implementation and sustainability.

iv. Tailored solutions build trust. By concluding 17 separate agreements, among three municipalities, the process respected each family's autonomy and reality of the local context.

v. Institutional mechanisms matter. IPAM's credibility, neutrality and procedural safeguards made the process possible. Mediation thrives when embedded within accountable institutions.

vi. Dialogue restores both rights and dignity. The most profound result was not only improved living but the rehumanization of relations between institutions and communities.

9. Broader reflections

The Vinča problem-solving experience illustrates a powerful truth: mediation is not only about resolving disputes, but also about rebuilding relationships within systems that have lost their capacity to listen. In development contexts, where public purpose meets private investment and community life, mediation offers a bridge between worlds that rarely meet as equals.

The active participation and openness demonstrated by Beo Čista Energija d.o.o. throughout the problem-solving process were instrumental to its success. From the outset, the company recognized the value of dialogue and engaged constructively, even when discussions required flexibility beyond its immediate contractual obligations. Its representatives showed a consistent willingness to listen, to understand the concerns of affected families, and to explore practical, good-faith solutions that balanced social needs with operational realities. This attitude not only helped restore trust between the company and the community but also set an important example of corporate responsibility in complex public–private partnerships, showing that sustainable development depends as much on empathy and responsiveness as on technical excellence.

The constructive engagement of the three local governments – the City of Belgrade, the City of Šabac and Vladimirci Municipality – played a vital role in translating the mediated commitments into tangible results on the ground. Their readiness to cooperate across jurisdictions, adapt administrative procedures, and prioritize the well-being of affected families demonstrated a commendable commitment to partnership and public service. By embracing dialogue and collaboration, these municipalities helped ensure that the outcomes of the mediation were not only agreed upon but effectively realized within their communities.

A-11 Initiative for Economic and Social Rights and CEE Bankwatch, supporting the displaced households, were instrumental in preparing and submitting the initial Request to IPAM. Throughout the process, they provided continuous legal, technical and social support to the 17 project-affected families, ensuring their voices were heard, their rights protected, and the final Problem-Solving Agreement delivered sustainable and fair livelihood restoration solutions.

What the IPAM team achieved in Serbia goes beyond the closure of a dispute. It demonstrated how institutional mediation can restore balance between development imperatives and human rights, between efficiency and empathy. It showed that progress, when built on dialogue, can be both sustainable and humane.

10. Conclusion

The Vinča Landfill Mediation (Belgrade Waste Management PPP - Problem-Solving Initiative) stands as a case study in what 21st-century mediation can achieve when it is principled, adaptive, and grounded in respect for human experience.

It reminds us that process design matters, but what matters more is how mediators, institutions, and parties together create the conditions for understanding and change. Through this mediation, IPAM not only resolved a complex PPP dispute but also redefined what accountability can mean in practice: not blame, but balance; not verdicts, but solutions; not silence, but dialogue.

Beyond Value for Money: Why the Next Generation of Public-Private Partnerships Needs Mediation, Not Litigation



Jean-Christophe Barth-Coullaré

Executive Director at WAPPP and IMI-Certified Mediator

Public-private partnerships (PPPs) have quietly become one of the most important tools for delivering the infrastructure the world depends on – roads, water systems, power grids, waste treatment plants, even street lighting. But as these deals grow more complex, and as more of them stretch across two or three decades, a hard truth is emerging: the biggest threat to a PPP is rarely the engineering. It's the relationship between the parties who signed the contract. PPPs will only work at the scale the world needs if governments, investors and the communities they serve find better ways to manage disagreement before it turns into a legal war of attrition.

Standardization as the Missing Ingredient

One of the most consequential problems in PPP design sounds almost administrative: standardization. PPP contracts are complex animals. They ask two parties who don't traditionally work together to build and operate a public service over a concession period that can run 15 to 35 years – and a great deal can happen during that time. Some elements of a PPP simply have to be rule-based, regulated or built around industry standards. Investors and lenders are frequently coming from outside the country where the project is based, and they arrive with expectations shaped by international norms. The mismatch between what governments need and what bankable, standardized projects look like is one of the biggest obstacles to getting more PPPs off the ground – in high-income, middle-income and low-income countries alike.

This is also why the World Association of PPP Units & Professionals (WAPPP) has pushed the debate beyond the traditional "value for money" test used to evaluate PPPs. In a paper titled *Making PPPs Fit the 2030 Agenda for Sustainable Development* several PPP experts argue that projects should be assessed not only on immediate value for money, but on value for future generations and for society as a whole – explicitly aligning PPP design with the United Nations' Sustainable Development Goals, alongside standards such as the FAST-Infra Label.

15–35 YEARS

A typical PPP concession period — and a great deal can happen in that time.

The Case for Mediation

If standardization is the structural fix, mediation is the relational one. Mediation is a form of consensual, interest-based dispute resolution that keeps disputes private and confidential, avoids lengthy legal battles, and – crucially – keeps control in the hands of the parties themselves rather than handing it to a judge or an arbitral tribunal. The underlying principle of interest-based negotiation is often summed up in a single phrase: nothing is agreed until everything is agreed.

Parties typically arrive at mediation either because it's written into the contract or because a culture has developed around resolving issues without resorting to adversarial procedures, such as litigation or arbitration. And the incentive is ultimately self-interested: formal mediation is a structured process that resolves difficulties quickly and cost-effectively. Used proactively—a practice sometimes called "anticipatory mediation"—it can reduce information asymmetries before a dispute fully escalates, and open the door to creative solutions on issues that don't reduce neatly to a monetary claim, such as ESG concerns, taxonomy questions or the shape of a forward-looking settlement.

Arbitration, by contrast, is not without merit, but it has become increasingly strained under its own weight: many users from both the public and private sides find it too cumbersome and complex. Parties forfeit control of the outcome to a third party, and the costs can be extraordinary. In one instance, Pakistani government lawyers illustrated the point starkly: under London Court of International Arbitration (LCIA) rules, familiar from their common-law tradition, officials, witnesses and legal teams had to fly to London for proceedings that cost hundreds of thousands of dollars and

dragged on for years. For an emerging economy already struggling to meet its financial obligations, that is simply an expense – and a delay – it cannot absorb.

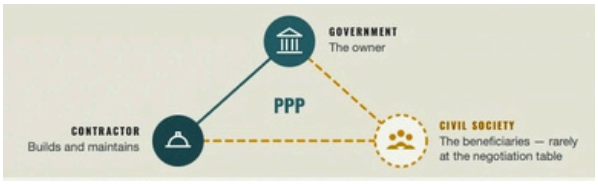
The deeper cost isn't even the legal fees. It's the lost opportunity: the years spent litigating or arbitrating are years in which nothing else gets built, refinanced or improved. That opportunity cost is notoriously hard to quantify, but it has to factor into how dispute resolution systems are designed from the outset.

A Tripartite Relationship – With a Silent Third Party

A PPP is fundamentally a three-way relationship: the government as owner, the contractor who builds and maintains the infrastructure, and civil society – the beneficiaries of the public service – who are rarely represented at the negotiation table at all.

Given concession periods of 15 to 35 years, the "economic equilibrium" that underpins the deal can erode, and trust between partners can fray to a breaking point. When that happens and a contract terminates, the damage isn't confined to the two signatories. These are essential public services, such as water infrastructure, energy systems, waste-to-energy plants and toll roads. Current work on a landlocked, least-developed country trying to secure cross-border road transportation infrastructure offers a vivid example of just how many interests are entangled in a single deal.

The broader point is this: if parties can't preserve the relationship through a dispute, they risk locking in and destroying the value the project was meant to create in the first place. That's bad for the specific deal and corrosive to the reputation of PPPs as a development model more broadly, at a time when public perception of PPPs is already fragile. Rebuilding that reputation through better stakeholder management, such as Voluntary Local Review, has become an explicit priority for WAPPP.



Three parties hold a stake in every PPP; only two of them usually sign the contract.

ESG, Grievance Mechanisms and the Price of Trust

Dispute resolution connects directly to ESG performance. Mediation is becoming the primary tool behind non-judicial grievance mechanisms – the accountability structures that development finance institutions now routinely require.

These mechanisms give people who weren't party to a project's original negotiation, but who are affected by it, a less intimidating way to raise concerns than the formal court system.

Serbia offers one example, where a public waste site needed to be sanitized and better managed – a process that meant relocating people who had been informally living off the waste dumps. Finding alternative housing and safer livelihoods for some of the most vulnerable people affected by a project is exactly the kind of issue that grievance mechanisms and mediation are suited to handle. There's also a financial argument for building mediation into governance frameworks from the start. Because the cost of mediation is typically shared between both parties – unlike litigation or arbitration, where costs scale with the size of the claim – it's inherently cheaper. And because companies that manage ESG risk well tend to refinance more cheaply, building mediation clauses into contracts (not banning arbitration outright, but favoring a "mixed mode" or "mediation-first" approach) can directly lower a project's refinancing risk. That is a real incentive – not just an ethical one – for adopting more consensual dispute resolution and ensuring better-quality outcomes.

This links back to FAST-Infra's own sustainability screening criteria – the environmental, social and governance indicators used to assess how resilient a project really is. Resilience, in this framing, is fundamentally about anticipation: building in mechanisms to handle problems you can't yet name, as early as the feasibility-study stage, so that governments, investors and asset managers alike can evaluate a project in a very unemotional way.

Building the Infrastructure for Better Disputes

There remains a broader knowledge gap: too few people in the infrastructure world understand that mutually acceptable outcomes through mediation are even an option. It simply isn't the default

approach to resolving long-term infrastructure disputes today—something ripe for innovation. To help close that gap, WAPPP has launched a Dispute Avoidance and Mediation Advisory Center (DMAC), designed to help parties navigate the complexity of PPP contracts and design systems that satisfy both ESG requirements and the practical need to deliver projects successfully.

Thinking Smaller, Not Just Bigger

Set against the usual narrative of PPPs as vehicles for mega-projects, WAPPP is putting real emphasis on small-scale and municipal PPPs, releasing dedicated Small-scale PPP Guidelines last July.

Twenty years ago, the private sector's role in PPPs was largely confined to major infrastructure projects, especially in the power sector, financed by lenders from outside the country. Today, that picture has changed substantially. Domestic financiers now play a mainstream role, partnerships between different types of financiers – development finance institutions, commercial lenders, philanthropic capital – have become common, and local and regional governments are increasingly sophisticated PPP participants in their own right, not just national ones.

The projects themselves look different too: rooftop solar, bus fleets, metro systems, street lighting, irrigation schemes reaching both large commercial farms and subsistence farmers. In Uganda, a series of mini-grids was developed under a small-scale PPP framework. What unites them is that they're structured around what communities actually need and are willing to pay for – which is precisely what makes them sustainable in the long run. That way, everyone comes out ahead: the private sector, the government and the community.

"If standardization is the structural fix, mediation is the relational one."

— Barth-Coullaré

The Takeaway

Strip away the acronyms, and the argument is fairly simple: PPPs fail less often because the underlying infrastructure is poorly engineered, and more often because the relationships holding the deal together aren't built to survive decades of change. Standardization, sustainability-linked assessment, proactive mediation clauses, and a broader definition of who counts as a stakeholder are not add-ons to good PPP design – they are the design.

As WAPPP continues to build out its membership – split roughly evenly between public-sector PPP units and infrastructure agencies on one side, and private-sector professionals, consultants and financiers on the other – and deepens its collaboration with FAST-Infra and the wider infrastructure finance community, one message is likely to keep gaining ground: the next generation of public-private partnerships will be judged not just on what gets built, but on how they scale through small-scale PPPs and how well they prevent disagreements along the way.

Links

- **MAKING PPPS FIT FOR THE 2030 AGENDA**
https://wappp.net/our_publications/making-ppps-fit-for-the-2030-agenda/
- **VOLUNTARY METROPOLITAN REVIEWS**
https://www.csend.org/voluntary-metropolitan-reviews/
- **SMALL-SCALE PPP GUIDELINES**
https://wappp.net/small-scale-ppps/
- **MINI GRIDS EXAMPLE**
https://nrep.ug/technologies/mini-grids/
- **UGANDA SMALL-SCALE PPP FRAMEWORK**
https://pppunit.go.ug/invitation-pre-qualification-development-financing-implementation-and-maintenance-mini-grids
- **WAPPP MEMBERSHIP**
https://wappp.net/why-join-us/

WAPPP



WAPPP IS PLEASED TO WELCOME

Niger Delta Development Commission (NDDC) as a full member of WAPPP

A Nigerian federal government agency, NDDC is mandated to promote the sustainable development of the Niger Delta region. Its Public-Private Partnership (PPP) Unit drives collaborative investment and infrastructure development, alongside initiatives supporting MSMEs across the region's nine states.

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NDDC is pleased to join WAPPP and looks forward to working with fellow members to advance public-private collaboration and sustainable development across the Niger Delta region.

Dr. Samuel Ogbuku
Managing Director and CEO, NDDC

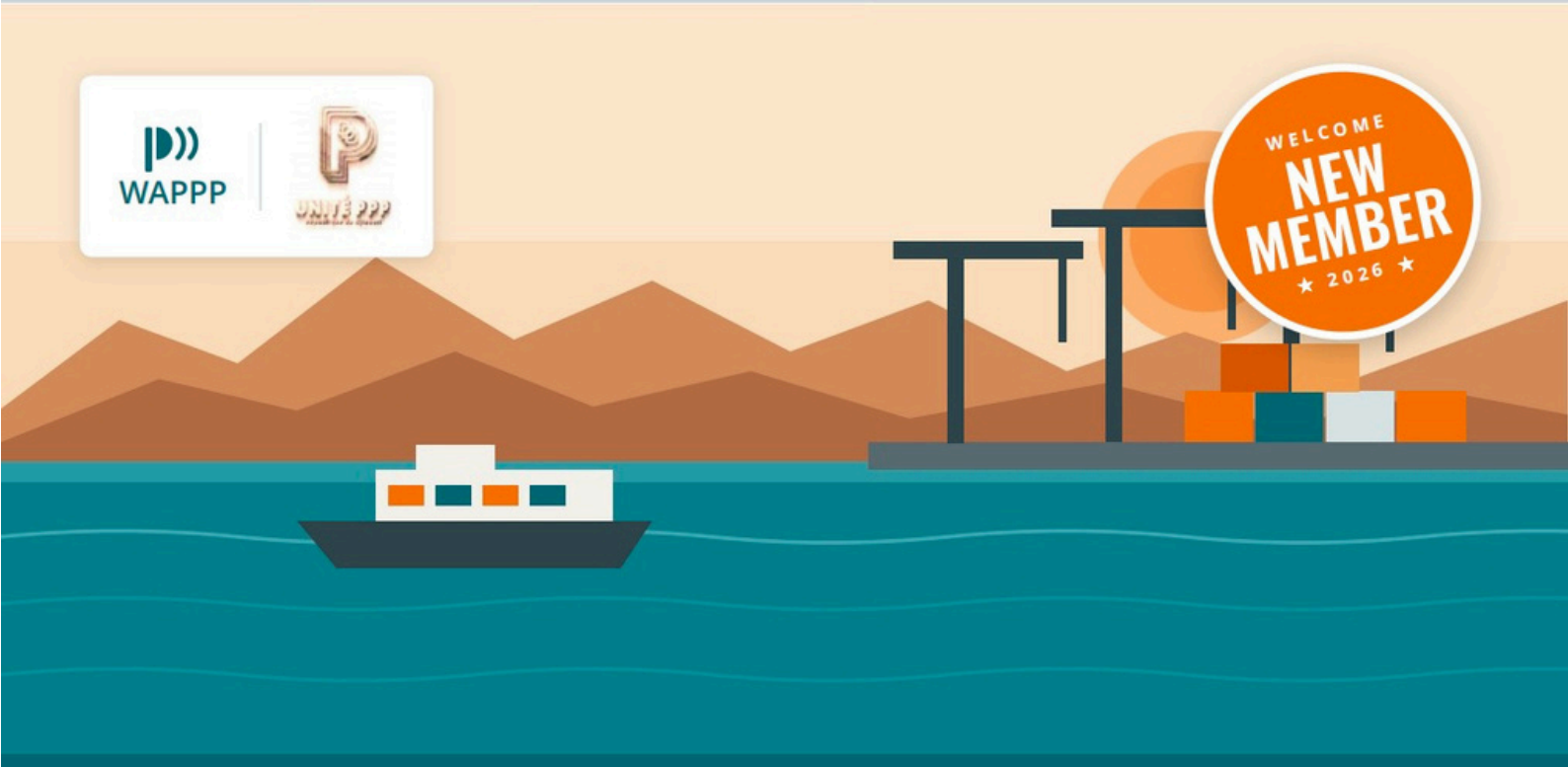
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On behalf of WAPPP, I warmly welcome the NDDC as it joins our platform. We look forward to working together to advance sustainable development and impactful projects across the Niger Delta region of Nigeria.

Ziad-Alexandre Hayek
President, WAPPP

We look forward to strengthening collaboration, sharing expertise and advancing impactful PPPs that support sustainable development across the region.

WORLD ASSOCIATION FOR PUBLIC-PRIVATE PARTNERSHIPS



WAPPP IS PLEASED TO WELCOME

Directorate General of PPPs of Djibouti (DGPPP) as a full member of WAPPP

A public entity under Djibouti's Ministry of Economy and Finance, in charge of Industry, the DGPPP is the country's national centre of expertise, assistance and advice across every stage of the PPP project life cycle, from shaping national PPP policy to promoting, monitoring and evaluating projects.

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The DGPPP is delighted to join WAPPP and looks forward to working closely with fellow members to create lasting synergies, strengthen partnerships and advance PPPs in Djibouti.

Fatouma Ahmed Moussa
Director General of PPPs, DGPPP

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We are delighted to welcome Djibouti's DGPPP. We look forward to sharing our expertise, encouraging exchange and supporting initiatives with a concrete impact on Djibouti's economic and social development.

Ziad-Alexandre Hayek
President, WAPPP

We look forward to strengthening collaboration, sharing expertise and advancing sustainable PPPs that drive development in Djibouti.



WAPPP

World Association for
Public Private Partnerships