Invited Guest Presentation 1

Infrastructure PPPs: Legitimacy, risk, and citizen investment

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Infrastructure PPPs:

Legitimacy, risk, and citizen investment

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PPP legitimacy - a structural issue

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Being clear about terminology – Private participation in infrastructure is not one thing

Service / management	Lease / affermage	PPP / concession	Regulated private model
Shorter contractual outsourcing. Little or no private capital at risk.	Private operation of an existing asset. Commercial risk can sit with the operator.	Long-term contractual delivery / operation. Meaningful private capital and performance risk.	Private ownership with ongoing regulation. Competition in the market is limited or absent.

The economics of legitimacy, risk and VfM depend on which institutional form we are actually discussing.

The later Korean discussion is therefore about a genuine long-term PPP mechanism — not simply about tax incentives, public land or other support to private investment.

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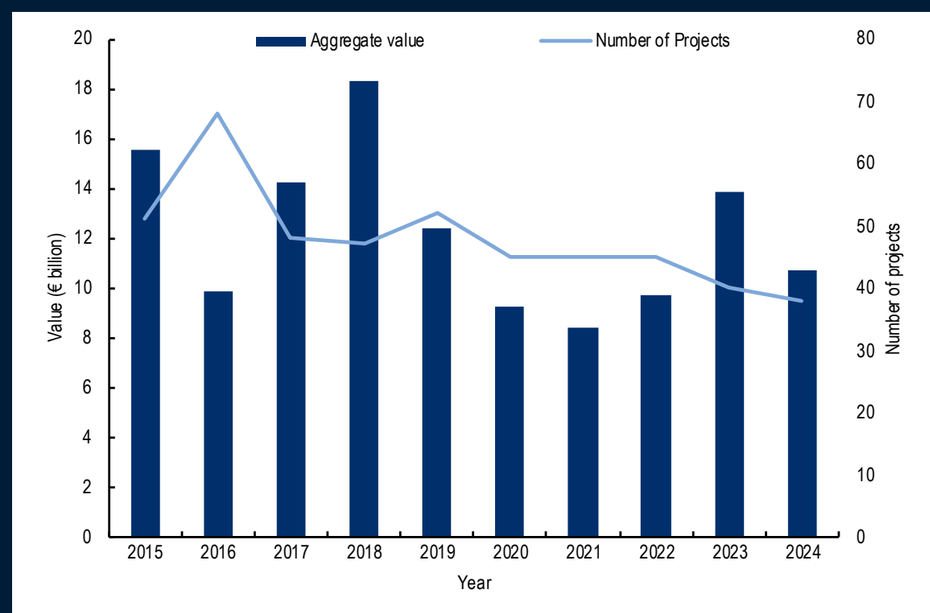
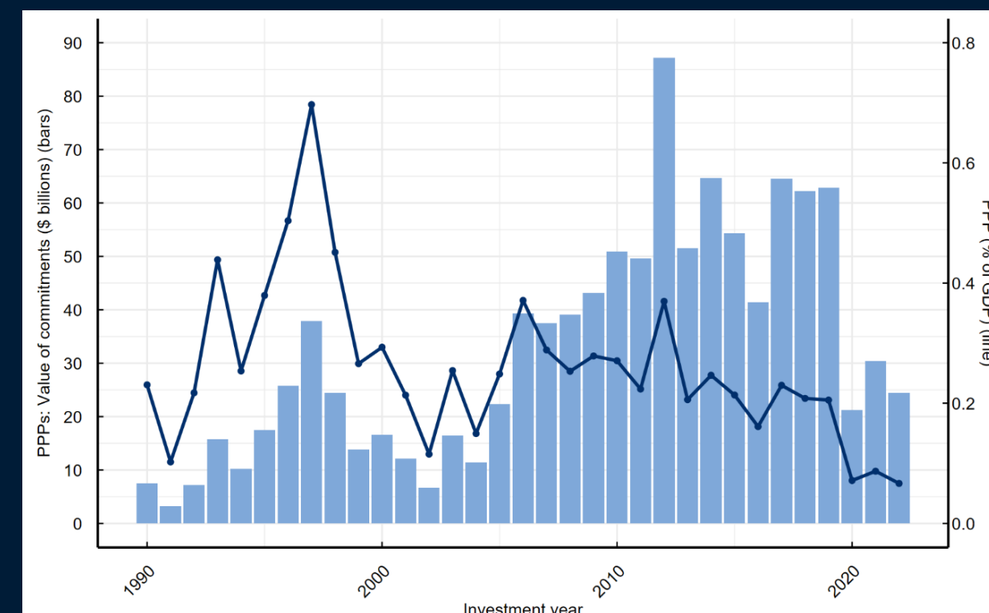
The legitimacy of the PPP model is not challenged only in Asia-Pacific

European public-private partnership market by value and number of projects (2015-2024)



PPP commitment value in low- and middle-income countries



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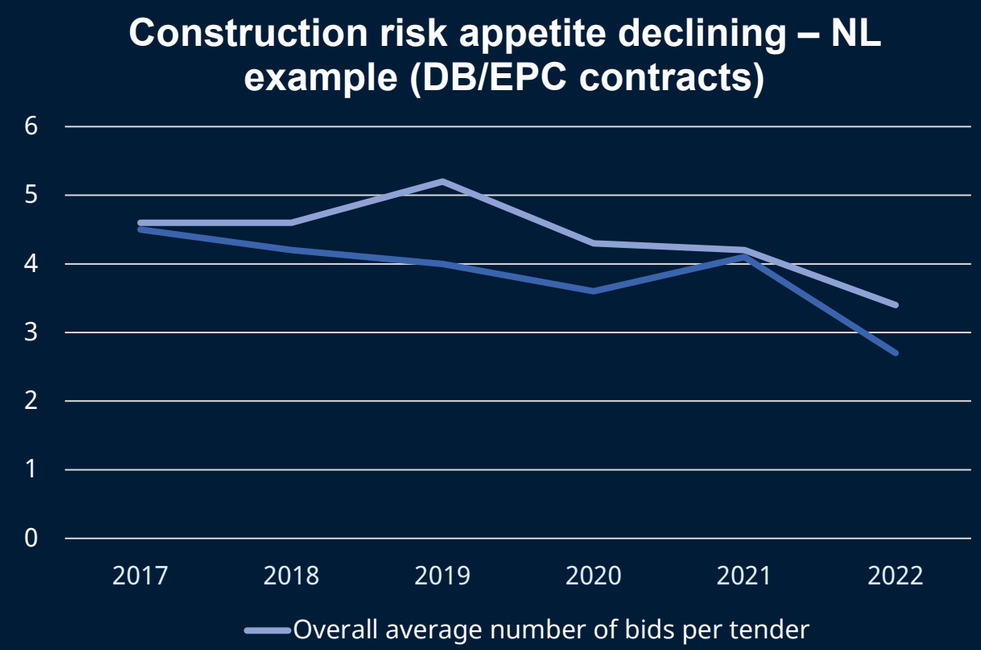
The story in advanced economies…

Regional issue?

Critical assessments of PPP performance	Country
NAO (2013; 2018); abandonment of PFI	UK
Bundesrechnungshof, 2014[35]); no demonstrated VfM, severely limited use of PPPs in motorways (Novelle des Art. 90 Abs. 2 GG (2017)	DE
Cour des comptes, (2017; 2022; 2025), questioning VfM justification and rigidities.	FR
Critical assessment of DBFMO performance (Ministerie van Infrastructuur en Waterstaat, 2022), change of approach	NL
European court of accounts (ECA, 2018); widespread shortcomings and limited benefits - availability and user funded cases	EU (12 cases)
…	…

European example, but a global issue…



Note: Number of bidders for infrastructure works (DB/EPC contracts) – example from NL/RWS

A core premise of the PPP model is the competition for the PPP contract

Pre-conditions for effective competition in economics

Credible commitment to the contract → A challenge for emerging economies

Multiple bidders (a working bidder market)

Low uncertainty

→ A challenge for all countries

PPPs depend on **fixed price/date contracts** with suppliers. → What happens if the **uncertainty** in the project is **high**?

Inefficiently high contingencies
Data on risks isn't / can't be good enough. Fear / subjectivity plays a role in pricing.

Winner's curse
Low-probability high-impact events can lead to a large loss for a contractor, prompting his exit from the market.

→ **Expensive infrastructure**

Less and less bidders

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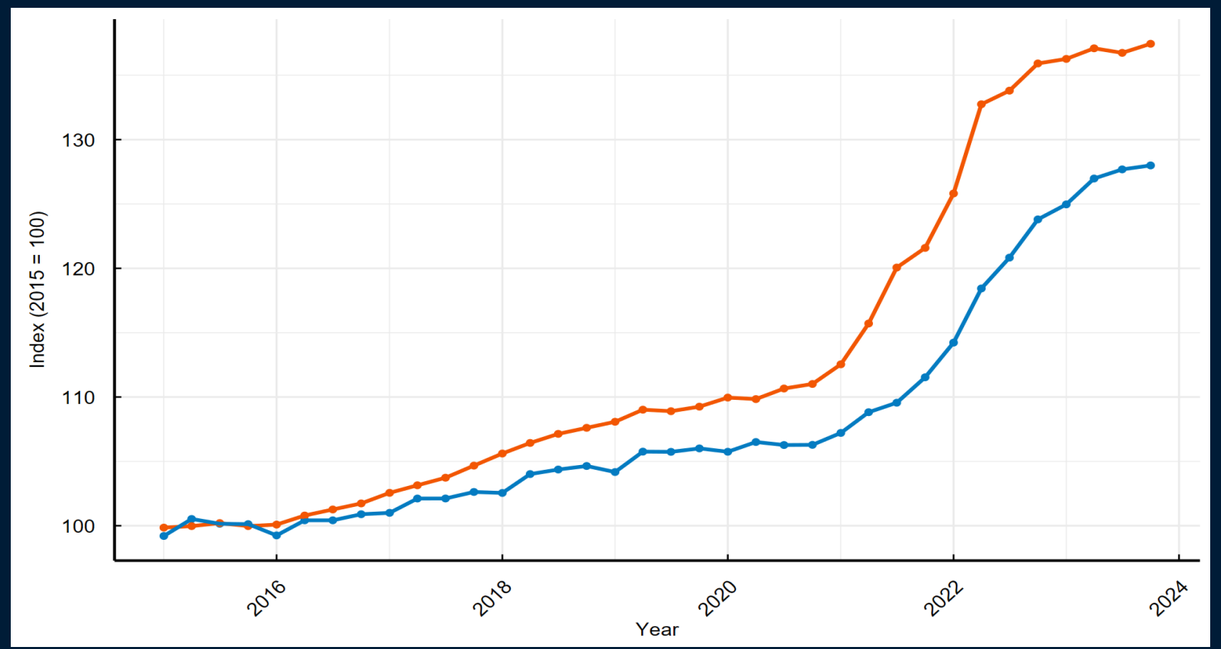
Input price issues accelerated legitimacy issues, but started after and are not the root cause

European example, but a global issue…



Construction input prices

General inflation (HICP)

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Korea’s response strategy?

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Korea's proposed response: broaden participation in the financial upside

The political proposition is straightforward:

"If citizens share in the returns from infrastructure, they may be more supportive of PPPs and more interested in protecting asset value."

Users / taxpayers → Citizen investment vehicle → Financial stake in PPP assets → More political identification

The stated objective is therefore not only financing.
It is also participation, distribution and legitimacy.

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What the citizen-fund architecture actually does

Citizen savings → Public-offering infrastructure fund → Senior PPP claims → PPP asset

Tax preference
15.4% separate taxation within the qualifying retail framework?

Leverage
Public infrastructure funds can now borrow up to 100% of capital?

Credit enhancement
Infrastructure Credit Guarantee Fund support for eligible PPP debt?

Important qualification: the first 2026 citizen fund's final prospectus/guarantee terms are not yet public.

The policy direction is clear; the precise guarantee coverage, pricing and exclusions remain to be established.

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The citizen fund changes participation — but not the underlying PPP economics

What it may achieve	What it does not automatically fix
Broadens access to infrastructure investment	The VfM question - should the project be a PPP at all
May redistribute financial returns to some of the households, because investment requires a min capital stake	Whether monopoly/market power rents are excessive
May create stronger political identification with assets, but again not for all households	Whether risks are allocated to those best able to price and then bear them
May lower financing costs if public support reduces the risk premium	Whether users receive the efficiency gains of better delivery
	Whether the underlying investment is economically justified

In other words: it may change who participates in the upside without changing why the PPP was controversial in the first place.

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Public risk bearing is valuable — but not a free subsidy to private investors

The economic distinction is between pooling risks society is well placed to bear and insulating selected investors from risks they voluntarily accept.

GOOD USE OF PUBLIC RISK-BEARING
Pool unavoidable / idiosyncratic risks where the state has a genuine diversification advantage.

QUESTIONABLE USE
Use public capacity to manufacture a protected return for a subset of private investors.

KEY TEST
Does the risk-bearing arrangement preserve incentives and charge fairly for the risk transferred?

"Who finances it?" ≠ "Who bears the risk?" ≠ "Who receives the return?"

A publicly guaranteed senior claim can make an investor's asset look nearly risk-free without making the underlying economic exposure risk-free for society.

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The OECDs response to the PPP legitimacy challenge

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Addressing the causes

How to evaluate VfM?

Strategic choices
Portfolio perspective

How to deliver VfM?

The public side of project level implementation (e.g. procurement strategy)

How to make it work for the market?

The private side of project level implementation

Political/reputational + market sustainability

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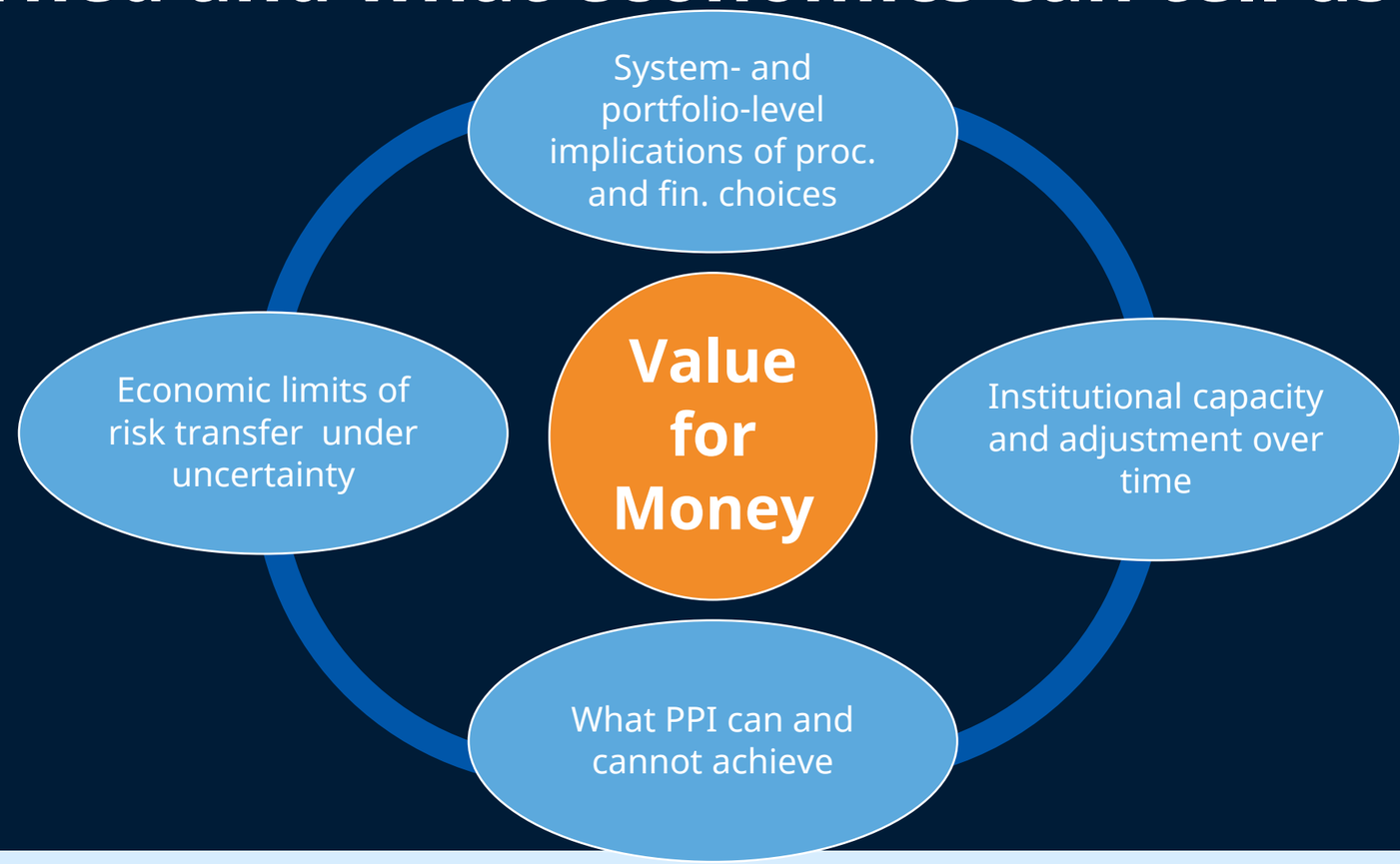
Rethinking Value for Money – The lessons learned and what economics can tell us



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The VfM dimensions translated into structured delivery decisions

[Competent] Management of financial risk

Capital markets/ investor perspective

[Competent] Regulation of financial markets

The infrastructure supplier perspective

[Competent] Public infra entities in general
To use the right methods and execute them well

The procurement strategy

- The nature of the project
- The capabilities of the delivery entity
- The structure of the market

The economic context

[Competent] SoEs
The public sector counterfactual to PPPs

When a PPP?
[competition in the market possible; many revenue channels]

When the regulated model?
[comp. in the market NOT possible; few revenue channels]

[Competent] Economic regulators
A critical precondition for the regulated model

Pursuing private investment for the right reasons (the narrative)

A prerequisite for public acceptance and VfM

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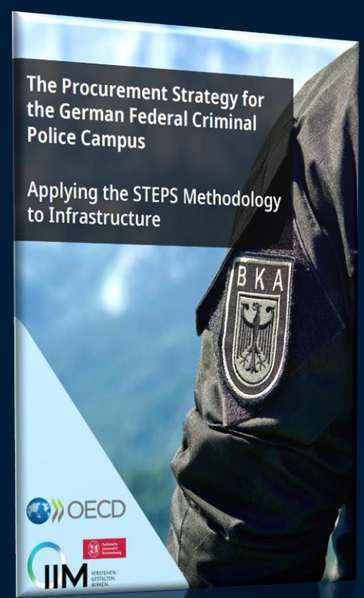
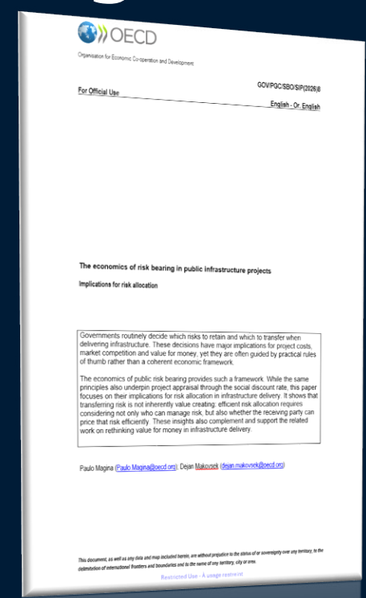
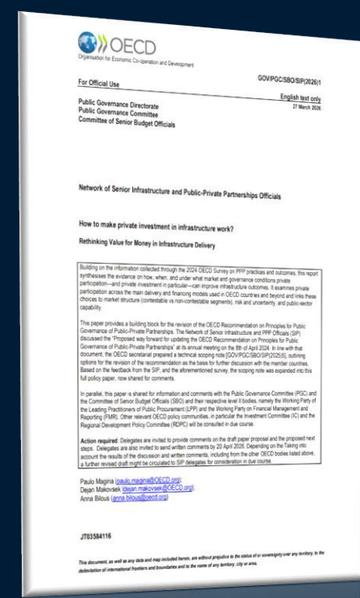
Not just theory, operational methodology is already being used



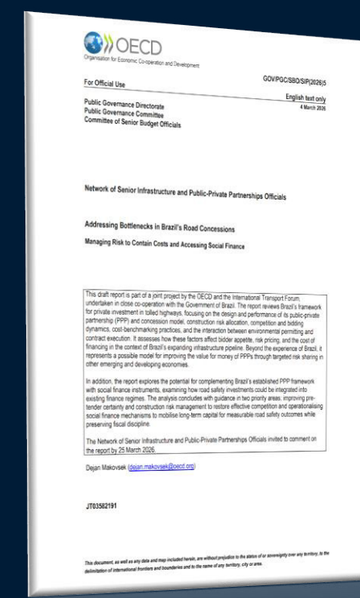
The Procurement Strategy for the German Federal Criminal Police Campus
Applying the STEPS Methodology to Infrastructure
Published, 2025



The economics of risk bearing in public infrastructure projects
Implications for risk allocation
Forthcoming, 2026.



How to make private investment in infrastructure work?
Rethinking Value for Money in Infrastructure Delivery
Forthcoming, 2026.



Addressing Bottlenecks in Brazil's Road Concessions
Managing Risk to Contain Costs
Forthcoming, 2026.

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A few questions for the future

1. If citizens dislike PPPs because of excessive rents, weak risk allocation or poor outcomes, does broadening access to the returns fix those causes — or simply broaden participation in the upside?

2. If the state makes the citizen investment safer through guarantees and tax preferences, are we transferring risk from the investor to the general taxpayer — and does the investor still earn a return above the market risk-free rate?

3. If many households become invested in politically promoted infrastructure, can the state credibly commit to letting those investors lose money — or does the scheme create an implicit expectation of future bailouts that weakens market discipline?

4. **And before extending PPPs into commercially competitive sectors such as AI/data centres, what is the market failure that PPP is solving, and why should the public sector bear the associated commercial risk?**

The objective is not to reject private participation — it is to keep the economics of the underlying decision ahead of the financial engineering.

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Thank you!

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