IMPACT OF COVID-19 ON PUBLIC-PRIVATE PARTNERSHIPS

NCP Research Paper

Abstract

Public and private sector responses to the COVID-19 pandemic are having a severe and damaging economic impact. As the world comes out of lockdown infrastructure investment will be a major lever for economic stimulus, while fiscal pressures mean governments have fewer resources to invest directly using traditional approaches. Government "demand" for PPPs as a way to bridge this financing gap will therefore increase. At the same time the "supply" of investors and lenders willing to provide the necessary technology, expertise and capital is constrained by increased market uncertainty and volatility. This Research Paper uses a Theory of Change framework to highlight the likely implications and risks for government PPP projects, and develops short- and medium-term strategies to address them efficiently and effectively.

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Impact of COVID-19 on PPP Programs

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List of Acronyms

%	Percent
B	Billion
CAPEX	Capital expenditure
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
ICT	Information and Communications Technology
M&A	Mergers and Acquisitions
NCP	National Center for Privatization and PPP
PPI	Private Participation in Infrastructure
PPP	Public-Private Partnership
SPV	Special Purpose Vehicle
TORs	Terms of Reference
UNCTAD	United Nations Conference on Trade and Development
USD, $	United States dollars
VFM	Value for Money
vs.	Versus

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1. Introduction

1.1 Background and Purpose of the Paper

Public and private sector responses to the COVID-19 pandemic have had a severe economic impact around the world. Many governments effectively shut down "non-essential" economic activity, while trade, travel and global supply chains have been disrupted. As a consequence, unemployment has increased and productivity has declined. Analysts and institutions alike predict that GDP will decline for almost all countries in 2020 and potentially into 2021[1]. Public spending has soared as governments try to mitigate these initial impacts, particularly through income support to businesses and individuals, and by strengthening health services[2].

As the world comes out of lockdown government PPP programs face a perfect storm of events (see Section 2). On the one hand, infrastructure investment will be a major lever for economic stimulus but at the same time, fiscal pressures mean that governments will have fewer resources to invest directly using traditional (government-funded) approaches. Government "demand" for PPPs as a way to bridge this gap is therefore likely to increase. At the same time the "supply" of investors and lenders willing to provide the necessary technology, expertise and capital is being constrained by increased market uncertainty and volatility.

Certain features of the COVID-19 pandemic, and the responses to it, will exacerbate the depressing effect of the economic shock on PPP plans, at least over the short- to medium-term. Trade and travel restrictions have made it more difficult to prepare new projects, participate in tenders and subsequently to import equipment and materials for their construction. As with the 2008 financial crisis, there will likely be a "flight to quality" by international investors and lenders, who will target less risky projects. This will particularly affect emerging markets and countries just starting out on their PPP journeys. Governments will need to do more to improve project bankability in order to attract international investors and the necessary financing. In effect, to attract the right investors and the necessary financing, governments will be under pressure to take on more risk, but also to improve the speed, quality and professionalism of PPP implementation.

The purpose of this paper is to consider the likely implications of the COVID-19 pandemic on PPP plans and projects. It also suggests ways by which governments might address these implications.

At the time of writing the world remains in the grip of COVID-19. Lags inherent in the PPP process mean that the full impacts will take time to be felt; hard data is therefore scarce. As a result, this paper does not seek to provide a comprehensive menu of responses but aims to highlight the most sensitive aspects and risks that would benefit from an immediate, pro-active policy response.

1.3 Structure of the Paper

This paper uses the "Theory of Change" framework to identify and investigate the likely impacts of the COVID-19 pandemic on PPP plans and projects. This involves describing the various mechanisms that come into play and using these to highlight key impacts (see Section 3). It identifies policies and actions to address and mitigate these impacts.

[1] See, for example, (World Bank, 2020), (UNIDO, 2020), (Capital Economics, 2020)
[2] See, for example, (IMF, 2020), (SPA, 2020), (Reuters, 2020), (Washington Post, 2020)

The remainder of this paper is structured as follows:

- Section 2 reviews recent literature on the impact of the COVID-19 pandemic on investment, the economy and PPPs;
- Section 3 describes the change model and sets out its implications and risks for PPPs, particularly for emerging markets;
- Section 4 suggests some strategies that governments could adopt to address the issues identified in Section 3 and hence to improve PPP outcomes.
- Section 5 summarizes the conclusions arising from the preceding analysis.

2. Literature Review

COVID-19 first started hitting the news in late 2019 but for most countries the impacts and responses only became acute in February-March 2020. Compared with the typical timeframes for preparing and tendering large public infrastructure projects, whether through PPP or traditional methods, it is still too early to judge the impact of COVID-19 on markets. There is little hard data available on how PPP projects and plans have been affected, and no consensus as yet on how best to respond. As a result, the current literature focuses on predicting the medium-long term impacts of the pandemic and suggesting how Governments might address them.

2.1 General implications for FDI and the Economy

The recent UNCTAD World Investment Report (UNCTAD, 2020) is one of the first major publications to attempt to quantify the impact on the pandemic on Foreign Direct Investment (FDI), using an updated version of its econometric forecasting model. UNCTAD expects that COVID-19 will lead to a *"dramatic"* decline in FDI. It forecasts a decline in FDI of 40% in 2020 and a further 5-10% in 2021, after which it will start to recover slowly. Total FDI is forecast to fall below USD1 trillion for the first time since 2005, compared to its 2019 value of USD1.54 trillion. For comparison, during the global financial crisis, FDI in 2009 declined far less, to USD1.9 trillion. The greater expected severity of COVID-19 on FDI as a whole might be explained by the fact that it directly affects the real economy. The crisis that began in 2008 was driven by the financial sector and its real impacts were indirect and less acute.

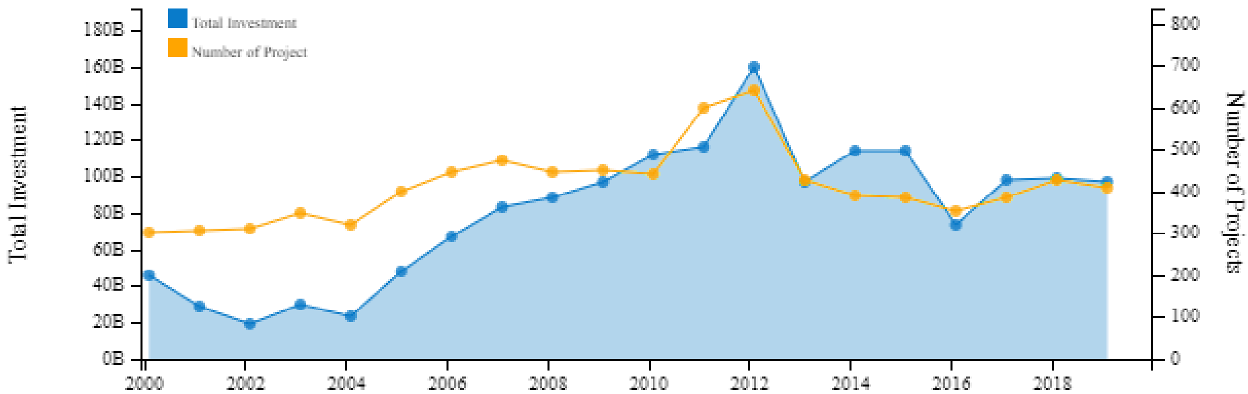
Many larger PPP projects, particularly in emerging markets, are financed and implemented by international firms, or consortia that include international firms. To that extent these investments would qualify as FDI. However, there is reason to believe that the impact on PPPs specifically will be attenuated compared to that for FDI as a whole. The UNCTAD analysis focuses particularly on private cross-border investment by private investors, that is, purely commercial ventures. In such commercial investments the private partner takes on all the risk. In PPP projects, risk is shared between the public and private sector partners, reducing the burden on investors. Thus, once the initial physical constraints imposed by COVID-19 responses are no longer binding, a more rapid recovery might be expected in the PPP space than for FDI as a whole, as governments seek to get their plans back on track. In the short term, however, the impact on PPP may be similar to that on purely private FDI, largely due to the physical constraints that COVID-19 places on preparing projects, completing tenders and construction.

This does not mean that PPP-related FDI will be unaffected. Investors and lenders will be aware that COVID-19 creates huge fiscal pressures on the governments that use PPP to procure investment in public infrastructure. Governments with less robust economies may struggle to meet the challenge, increasing investors' perception of risk even where there are explicit guarantees and other protections in place. This may lead to a "flight to quality" by international investors.

As indicated above, since the COVID-19 pandemic is rooted in the real economy, the longer-term impacts are likely to be different to the 2008 financial crisis. At that time there was a significant negative impact on PPPs. Banks became unwilling to provide the long term project finance that had previously been relied upon. Any financing that was available came with shorter terms and higher interest charges. Nevertheless, the dip in the PPP market turned out to be quite short and shallow, as illustrated in

Figure 1 below.

Figure 1Trends in Private Participation in Infrastructure 2000-2019



Source: World Bank (World Bank, 2020)[3]

A recent study on the economic impact of pandemics by Jorda et al (Jorda, 2020) reviewed the impacts of 15 large pandemics, using data going back as far as the Black Death in the 14th century. The study found that since pandemics affect people but not infrastructure, their economic impact (as indicated by their effect on real interest rates) is different to that of crises such as war or natural disaster that involve significant infrastructure damage as well as high death tolls. War and natural disaster increase demand for loans to replace damaged infrastructure, both from the public and private sectors. This tends to increase the cost of borrowing, that is, interest rates. Interest rates also increase in the case of financial crises but in this case because of a contraction in supply of capital rather than an increase in demand for loans. Under a pandemic, however, demand for borrowing from the private sector should decline in response to economic contraction and uncertainty. As a result, real interest rates should fall, making it cheaper for Governments and PPP investors to borrow.

As Jorda et al (Jorda, 2020) puts it, *"we still expect a sustained period of low real interest rates …. (which) should then provide welcome fiscal space for governments to aggressively mitigate the consequences of the pandemic."* In terms of PPPs, therefore, falling real interest rates could allow governments to take a greater share of the investment cost, funded by borrowing, to counteract the increased caution of lenders and investors.

2.2 Specific Implications for PPPs

Baxter (Baxter, 2020) surveyed 157 PPP practitioners across 69 countries on their views of the challenges and opportunities that COVID-19 creates for PPPs. Respondents identified various concerns arising from the pandemic. Some of these concerns are likely to be limited to the short-medium term, such as difficulties accessing project sites. However, other impacts may extend well into the longer term. Of particular note are the following concerns raised by survey respondents:

- Weakening global financial markets and economic disruption that will consequently reduce project bankability;
- Shift in government focus from long term infrastructure plans to short term crisis management;

[3] Note that the World Bank data only covers economic infrastructure projects (energy, water and waste, transport, ICT) in low and middle-income countries.

- Fiscal pressures affecting the ability of public sector partners to pay;
- Economic pressures affecting the ability of users to pay.

Baxter (Baxter, 2020) reported that certain sectors were seen as more vulnerable by practitioners, especially transport projects (cited by 53.9% of respondents), followed by tourism and leisure (16.9%). A second tier of sectors, cited by 6-7.5%, comprised power, health, education and water. At the same time, healthcare PPPs were seen by 39.4% of respondents as presenting increased PPP opportunities.

PPP practitioners identified a number of possible responses and opportunities for governments. In particular, *"Practitioners pointed out that it is time for refocused and more relevant projects, that are more defensible, sustainable and resilient"* (Baxter, 2020).

The ratings agency Fitch (Fitch Ratings, 2020) highlights the risk that the pandemic puts on the construction stage of PPP projects, raising concerns over *"the potential to cause completion delays and alter the finances of projects under construction*". This seems to be driven by the fact that PPP contracts traditionally place construction risk on the private partner and a concern that *"pandemics are not typically covered under force majeure provisions".* Nonetheless, it could be argued that a pandemic would appear to fit the general definition of force majeure as an event that affects performance that was not caused by the investor or the government. If governments are unwilling to be flexible, this lack of clarity could lead to disputes, delays, renegotiation or, in the worst case, termination of PPP contracts.

Most governments do not publish actual PPP contracts, presumably viewing them as commercially sensitive. However, some do publish contract templates that provide the legal drafting without specific commercial details. The PPP contract templates published by Partnerships Victoria in Australia (Partnerships Victoria) and the Irish Department of Public Expenditure and Reform (Department of Public Expenditure and Reform, 2014) do not specifically refer to disease or pandemics as examples of force majeure. Seeking to provide clarity, sample drafting for PPP contracts proposed by the World Bank (World Bank/PPIAF/Global Infrastructure Facility, 2019) explicitly includes *"plague, epidemic and natural disaster"* as force majeure events.

Notwithstanding the evidence cited by Jorda et al (Jorda, 2020) that pandemics can reduce financing costs in the medium- to long-term, the short term economic uncertainty related to the pandemic may have the opposite effect. In a recent article in the National Law Review, Irwin and Elshurafa (Irwin, 2020) argue that *"the financial market is experiencing an unexpected shock as a result of COVID-19 coupled with the increased stress of a sudden and, arguably, equally unforeseen, drop in oil prices"*, such that *"in the project finance market, projects in the early development stage that don't have committed financing in place may struggle to raise debt in the timescales and manner the project sponsors originally anticipated."*

Responses to the 2008 financial crisis may shed light on the likely short term implications of the COVID-19 pandemic on PPPs. A 2009 IMF survey of PPP practitioners (Burger, 2009) found that *"private partners in PPPs were less willing to retain certain risks, such as interest rate risk and financial closure risk and were seeking greater contributions or guarantees from the government."* This is a natural response to a perceived increase in risk. The paper also cites a PWC survey of UK PPP lenders which found that following the financial crisis there was a *"marked shift in the preference of financial institutions away from long-term loans and towards loans with a much shorter term to maturity."* (Burger, 2009).

Overall, this suggests that there is likely to be some negative impact of the pandemic on the availability, cost and term of PPP financing over the short- to medium-term. However, given the different natures of the two crises, this will be driven by lender concerns over project/demand/payment risk rather than the fundamental capital constraints that were a feature of the 2008 financial crisis. As a result, the disruption may be shorter and shallower than in 2008-09, and may be more easily addressed by government actions.

2.3 Implications for PPPs

The analysis of the literature described above suggests that the likely impacts of the COVID-19 pandemic on PPPs may be attenuated compared to the 2008 financial crisis. That is not to say there will be no effects. In particular, one might expect to see the following:

Short-term:

- Delays in project preparation and tenders, primarily due to difficulties in site access and travel.
- Reduced bidder interest in PPP tenders, at least while pandemic restrictions remain in place.
- Lenders' natural caution extending time needed to achieve financial close, although well-structured projects with clear/mitigated risks should still obtain the necessary financing.
- Construction delays, both as a result of local restrictions and due to supply chain disruptions for imported equipment and materials.
- Requests from Contractors to invoke force majeure clauses in PPP Contracts. If drafting is unclear or excludes pandemics, they may seek to renegotiate and/or invoke dispute resolution clauses, especially if the Procuring Authority resists. Projects with government guarantees are likely to see claims as project SPVs fail to meet debt finance obligations. At the extreme, project SPVs may go into liquidation.
- For operational projects revenues will be under pressure. User-pays projects, especially in the transport sector, will face declining demand. For Government-Pays projects, fiscal pressures resulting from COVID-19 could impact on willingness or ability to pay. At the least, payments may be delayed.

Medium-Long term:

- As work and travel restrictions are lifted, project preparation and tender times will recover. Some governments may seek to speed up the process as part of economic stimulus initiatives.
- Project finance should recover fairly quickly but there is likely to be a flight to quality, by both investors and lenders. More developed emerging markets should benefit from this flight to quality, since they can still provide reasonable returns at acceptable risk levels compared to less economically robust emerging and developing countries.
- Investors and lenders are likely to require governments to take on more risk than previously. This could reduce VFM and some (marginal) PPPs may become less attractive from government's point of view.
- Construction should get back on track quickly, as restrictions are lifted.
- Investor claims and requests to revisit PPP Contracts, particularly force majeure provisions, will continue into the medium-term. Once the immediate constraints are relieved there will likely be more pressure for renegotiation, as investors seek to clarify the balance of risk between public and private sectors if there are similar future events. Disputes, legal cases and terminations initiated previously will be resolved during the medium-term.
- For operating projects, impacts will vary by sector and revenue source. Transport projects are likely to be the most vulnerable, partly due to their size and partly to the disproportionate impact

of COVID-19 on travel and trade, which may take some time to recover. Conversely, investor interest in power and water projects is likely to remain robust, especially in countries with proven PPP track records in these sectors.

3. The Theory of Change

The Theory of Change is a technique that can be used to assess the impacts and implications of policies, projects, programs and major events. In its simplest terms it involves setting out a framework that explains how a particular program or project (for example, "PPPs under COVID-19") is expected to achieve the desired impact. More explicitly, a *"theory of change is the articulation of the underlying beliefs and assumptions that guide a service delivery strategy and are believed to be critical for producing change and improvement. Theories of change represent beliefs about what is needed by the target population and what strategies will enable them to meet those needs. They establish a context for considering the connection between a system's mission, strategies and actual outcomes, while creating links between who is being served, the strategies or activities that are being implemented, and the desired outcomes."* (International Network on Strategic Philanthropy, 2005). This is a potentially helpful way to consider the implications of the COVID-19 pandemic on PPPs as it provides a formal framework that explicitly incorporates causality. This requires a more comprehensive listing of impacts (in this case, impacts of COVID-19) to be addressed, making it easier to consider what policy responses might be most effective and to identify potential unintended consequences and conflicts.

A common approach to Theory of Change analysis is to develop a "results chain", as illustrated in Figure 2 below[4]. This is the approach that was adopted for this paper.

Figure 2 Illustration of Theory of Change Results Chain

Source: Rogers (Rogers, 2014)

In the case of the COVID-19 pandemic, the Inputs can be considered to be the pandemic itself; Activities would be the direct consequences of, and responses to, the pandemic, such as sickness and death, quarantine and travel restrictions; Outputs would be the direct macro-economic results, particularly falling GDP and increasing uncertainty; Outcomes can be considered as the indirect economic and commercial impacts, such as those described in section 2.1; and the Impacts can be considered as the resulting effects on PPP projects and programs.

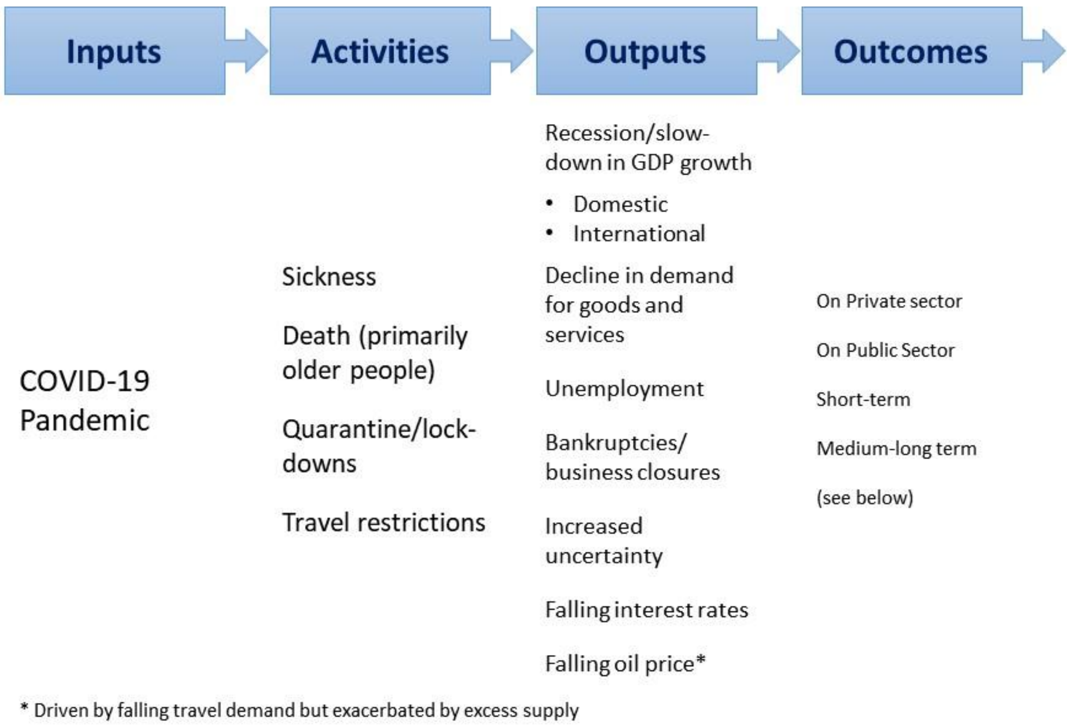
[4] An alternative way to present the Theory of Change, which is common for projects funded by international aid agencies, is the "Logical Framework" or "Logframe", which uses a matrix presentation.

4. Likely Impacts and Possible Policy Responses

4.1 Inputs, Activities and Outputs

Figure 3 below sets up the results chain for the COVID-19 pandemic for the first four, general/macroeconomic catgories: Inputs, Activities, Outputs and Outcomes. The Impacts on PPP derived from these will be developed and described in section 4.3.

Figure 3 Macro Results Chain for COVID-19



Source: Author's analysis

4.2 Outcomes: Implications for PPP

A key takeaway of the macro- literature decribed in Section 2.1 is that the economic impacts will vary over time, as economies, Governments and the private sector adjust to the situation. It is therefore helpful to consider the outcomes in terms of their timeframes. Since PPP involves two different types of economic player (public and private sectors), it is also helpful to consider the different impacts on, and responses of, these two groups. **Error! Not a valid bookmark self-reference.** below sets out the likely economic outcomes of the COVID-19 pandemic that are most relevant to PPP projects and programs.

Table 1 Outcomes of the COVID-19 Pandemic Relevant to PPP

Affected Party	Short-term	Medium-long term
Private Sector (investors and lenders)	Focus on survival.	Bankruptcies.
	Cut investment, flight to quality.	M&A opportunities for the survivors.
	Focus on home countries.	Cheaper to buy an existing project.
	Work from home - ↓ productivity/ output, delays.	Project finance likely to recover more quickly than willingness to invest.
	Lending: reduce/put decisions on hold.	Flight to quality for investors and lenders.
	Logistics disruptions.	
	Travel restrictions.	
Public Sector	Focus on short-term crisis responses.	Focus on recovery, emergency/disaster responses.
	↑ spending, ↑ borrowing.	Fiscal boost – Govt. spending ↑ - but largely financed by increased borrowing.
	↓ revenue.	
	↓ productivity/output, decision delays.	

Source: various, Author's analysis

Expanding and extending the analysis of Table 1 Outcomes of the COVID-19 Pandemic Relevant to PPPTable 1, key implications for PPP projects and plans are likely to include:

- For investors, challenges in existing markets will take precedence over new projects, reducing participation in tenders launched over the short-medium term. Tenders that are already in progress may face drop-outs and delays from investors. This may take some time to recover, given the real, as opposed to purely financial, nature of the impacts.
- Lenders will also react initially with caution, extending the time needed to reach financial close. However, their appetite for project finance should recover quickly, once the initial disruption begins to dissipate.
- For investors and lenders that are willing to participate in PPP markets there will be a flight to quality, away from developing countries and riskier projects in other markets.
- There is likely to be an increase in secondary market activities. Troubled investors may seek to reduce their PPP exposures, creating opportunities for others, including for specialized PPP and infrastructure investment vehicles. Governments are likely to see an increase in Change of Ownership requests for operating projects.
- For projects that have already reached financial close, in most cases the construction period is most vulnerable to economic and trade constraints, although transport projects will also face problems during operations.
- For the public sector, PPP will initially fall down the list of priorities in favor of short term responses in the health sector, economic lockdowns and financial support for those affected.
- Over the medium- to long-term governments' attention is likely to shift back to infrastructure investment, as a way to provide a fiscal boost to the economy. Revenue pressures mean that this will mostly be financed through borrowing. PPP will become more attractive as a way to achieve a fiscal boost while mitigating (or eliminating, in the case of User-Pays projects) the fiscal pressure.

4.3 Likely Impacts on PPP Projects and Plans

The final component of the results chain (see Figure 2) is the identification of the specific impacts on PPPs resulting from the previous components. These are highlighted in Table 2 below. Again, for clarity these have been differentiated by time-frame and by the party affected.

Table 2 Likely Impacts of COVID-19 on PPP Projects and Players

Affected Party	Short-term	Medium-long term
Private Sector (investors)	Work on bids will slow, no travel to meetings.	Risk of loan default.
	Minimal appetite to take on new tenders/projects.	Force Majeure claims.
	Construction on closed projects will slow.	Requests to renegotiate PPP Contracts.
	Operations will be affected along with the rest of the economy.	Flight to quality – lower risk opportunities vs. emerging markets.
Private Sector (lenders)	Financial Close times will be extended/ put on hold.	Flight to quality (countries and projects); increased requirement for credit guarantees, other government support.
	Higher risk premiums (🡡 cost, 🡣 term, 🡡 required Debt Service Cover Ratios).	Recovery in project finance over the medium-term.
	Possible shift from Project Finance to Mini-Perms as with the 2008 crisis.	Longer-term decline in interest rates as per Jorda et al (Jorda, 2020).
Public Sector	Focus on short-term needs, not long-term infrastructure.	PPP demand will pick up.
	Fiscal constraints 🡪 fewer resources to invest.	Increasing fiscal constraints increases pressure for private financing and User-Pays projects.
	Emergency response 🡪 desire to move fast, not well suited to PPP.	Increasing payment claims on guarantee commitments, force majeure.

Source: Author's analysis

Another way to categorize the impacts is to consider the different stages of the PPP process. In general, the earlier in the process a project is, the more immediate the impact. Conversely, the further along it is, the more costly the likely impact to both parties. This is explored further in Table 3 below.

Table 3 Likely Impacts of COVID-19 at Different Stages of PPP Projects

Stage	Government	+ Investors	→ PPP
Identification, Appraisal & Structuring	s Slowdown in activity. s Travel constraints. s Budget constraints.	- (investors not directly involved in these stages)	→ Delays. → Difficult to access sites. → Desire to cut preparation cost.
	m Work constraints relaxed. m Desire to boost infrastructure. m Budget constraints. m Policy priorities may change.	- (investors not directly involved in these stages)	→ Pressure to speed up the process, take short cuts. → Pressure to minimize preparation/ advisor costs. → Review past decisions and priorities.
Tender	s Slowdown in activity.	s Travel constraints. s Review resources, strategy. s Financing uncertainty.	→ Delays, extensions to tenders. → Delays to financial close. → Fewer bidders. → Shift towards locally-based bidders, lenders. → Failed tenders.
	m Work constraints relaxed. m Desire to boost infrastructure. m Budget constraints. m Policy priorities may change.	m Flight to quality. m Problems in other markets, bankruptcies. m Financing constraints relaxed.	→ General decline in number of bidders. → In riskier countries, shift towards local investors, lenders. → Possible shift in investor interest towards middle/high-income emerging markets. → Greater attention paid to risk allocation, government may have to take more risk, provide guarantees.
Construction (highest risk stage – Parties committed but no revenue)	s Slowdown in activity. s Travel constraints.	s Supply chain disruption. s Lockdown/quarantine measures. s General economic downturn.	→ Delays in decisions, permits. → Equipment, materials delays. → Risk of Contractor/sub-contractor bankruptcy. → Force majeure claims, disputes, PPP Contract renegotiation.
	m Work constraints relaxed. m Policy priorities may change.	m Problems in other markets, bankruptcies. m Shift towards less risky markets.	→ Risk of Contractor/sub-contractor bankruptcy. → Force majeure claims, disputes, PPP Contract renegotiation. → International partners wish to exit riskier projects.
Operation & Hand-back	s Budget constraints. s Slowdown in activity. s Less effort on Contract Management.	s Lockdown/quarantine measures. s General economic downturn. s Fall in demand for Project services (especially transport, User-Pays).	→ Payment delays (Government-Pays). → Falling demand, revenue risk (User-Pays). → Risk of SPV bankruptcy. → Force majeure claims, disputes, PPP Contract renegotiation. → Claims on Government guarantees. → Decline in service quality.
	m Work constraints relaxed. m Continued budget constraints. m Fewer resources for Contract Management.	m Problems in other markets, bankruptcies. m Shift towards less risky markets. m Financing constraints relaxed.	→ Risk of SPV/sub-contractor bankruptcy. → Risk of investor bankruptcy. → Force majeure claims, disputes, PPP Contract renegotiation. → Shareholders wish to exit.

Source: Author's analysis *Key: (s) = short-term; (m) = medium- long-term*

Based on the above, the key risks and potential concerns for governments are likely to be for the medium-long term. In the short-term, most economic activity, in most countries, has slowed significantly. Government policy priorities are rightly focused on addressing the direct immediate impacts of the pandemic, such as boosting the capacity of health sectors and providing short term economic relief to those affected by lockdowns. PPP plans have, for the time being at least, moved down the list of priorities.

Over the medium- to long-term some of the key constraints will be relaxed, including travel, quarantine and financing. Other constraints, however, will persist or even deteriorate. At the very least, costly short-term economic fixes will need to be wound down. Key concerns for PPP, therefore, are likely to include:

- Changes in policy priorities, potentially leaving existing projects stranded or at least given less attention and fewer resources.
- Bankruptcies or weakening performance of investors and sub-contractors leading to disruption at the project level. Investors may seek to exit the SPV.
- Particularly high risk in the construction phase. This is already the most risky time for PPPs, since projects incur high costs and generate no revenue. These inherent risks will be exacerbated by delays caused by the lockdown, travel and logistics restrictions and by short term financing constraints. Bankruptcies of construction sub-contractors and even of project SPVs will be more likely.
- Increased claims on force majeure clauses and, if these are inadequately drafted, disputes and calls to renegotiate PPP contracts. This will increase demands for government attention and resources. All of these issues are likely to reduce VFM and shift the balance of risk toward the government partner.
- For most countries government revenues are down as a result of economic contraction, while spending is up to address immediate COVID-19 impacts. Infrastructure investment can be an important tool to boost the economy. PPP procurement will thus become more attractive to financially constrained governments. This will incentivize governments to speed up preparation and tendering.

4.4 Possible Policy Responses

Governments will need to address the impact of the COVID-19 pandemic on their PPP plans. They may also wish to increase the use of PPP as a procurement mechanism for infrastructure investments, as a means of boosting the economy. The Theory of Change and Results Chain presented above suggest a number of policy and implementation responses that governments can use to help achieve these objectives. These can be divided into: short-term/immediate strategic responses; general government responses; and responses of public sector PPP agencies.

Short-term strategic responses could include the following:

- Best practice PPP procurement is not the right tool for emergency responses/reactions. Governments should therefore resist the temptation to take short cuts to speed up the PPP procurement process. Instead it may be better to accept a short-term hiatus in PPP program implementation. Understand that deadlines and investment targets will not be met and PPP programs will be delayed through to the medium-term at least. Work on tenders that have already been launched or that are ready for launch should continue, but governments (and lenders) may need to be flexible on deadlines, physical meetings, etc.

- At the same time, governments should prepare for a resurgence in PPPs in the medium-term. To prepare for this, they could consider what new constraints are likely to arise as a result of the pandemic (risk allocation, force majeure, financing, staff capacity) and put in place mechanisms to address them.
- Review sectoral policies and priorities for infrastructure investment, particularly transport and tourism projects that appear to be particularly vulnerable. Health sector investments may become higher priority. More generally, fiscal pressures may encourage a shift towards User-Pays projects and structures.
- Take the opportunity presented by the "time out" for strategic thinking. What are the binding constraints within the existing PPP framework? How can they be addressed? What are the specific sectoral impacts and how might they be incorporated in PPP frameworks? Most PPP processes are too long and too costly for both parties. Many have too many decision points and fail to differentiate between large, complex infrastructure investments and smaller, simpler projects. There may be opportunities to streamline them without sacrificing quality. A slowdown in live tenders can provide a breathing space and can free up resources to consider how best to improve the efficiency of the PPP framework.
- The initial constraints will eventually be alleviated and implementation will accelerate. Governments can take the opportunity to start preparing early. Devote time and resources to identification, appraisal and structuring of projects to prepare them for tender launch once immediate constraints are relieved.
- Review the PPP Framework to ensure that it is robust to future pandemics and similar events. This should include a review of "standard" PPP contract clauses on force majeure.

General government/sectoral responses could include:

Short term

- Focus on the challenges at hand arising from the pandemic…
- …But PPP teams can usefully spend time on preparation: identifying new projects, preparing TORs, collecting data.
- Anticipate and prepare for:
    - Force majeure claims, especially during construction. Be proactive and talk to the SPV to identify material issues before they become acute. Review PPP Contracts to identify potential problems. Budget for likely financial support or compensation to minimize the risk of payment delays.
    - Guarantee claims are more likely. Ministries of Finance should monitor the situation.
    - Don't wait for the SPV to declare bankruptcy; be proactive and initiate discussions if necessary.

Medium term

- Make participation more attractive and less costly to investors. This includes a clear framework for PPP, clarity on government support and an efficient process.
- Ensure that projects coming to market are well prepared.
- Invest in capacity building for PPP Working Teams, Contract Management Teams and other technical staff involved in implementing the PPP Program.
- Be realistic on timing; do not rush the process just to catch up on delays.

- Consider the possibility of increasing government co-financing of CAPEX. This will to speed up tenders, increase investor demand and reduce financing costs. This may be a temporary response, since financial markets are likely to recover.

Responses from **public sector PPP agencies** could include:

Short term

- Review the PPP framework. PPP agencies would normally drive the strategic assessments described above.
- Review drafting of Force Majeure clauses in PPP contracts – how are pandemics treated? Is drafting consistent across contracts? What are the likely implications for government?
- Communicate to address uncertainty for investors and other stakeholders. Manage expectations within government on the ability of PPPs to expedite infrastructure investment.

Medium term

- Take the opportunity to build capacity within the agency and in implementing Sectors.
- Address obstacles in the PPP Framework. Now might be a good time to survey investors, lenders and other stakeholders that participated in previous tenders.

5. Conclusions

The public and private sector responses to the pandemic have wide-ranging economic and social impacts. Implementation of PPPs has slowed considerably in many countries, both as a result of lockdown restrictions and because government priorities and resources have shifted towards more immediate issues. Even after the pandemic abates, economic impacts and uncertainty will continue for some time.

Governments looking to use PPP as part of their economic recovery efforts are likely to face a number of conflicting pressures that need to be taken into account. PPP can be an effective tool to promote infrastructure investment and to increase the economic presence of the private sector. However, it is not suited to emergency situations that require a speedy response. Any benefit from short-cuts taken during the preparation and tender stages will cost procuring authorities many times over in failed tenders and loss of VFM.

Some of the main conflicting pressures are as follows:

Desire to react quickly to boost the economy.	vs.	Rushing PPPs leads to less well-prepared projects, loss of VFM and higher risk of failure.
Increased demand for investment in infrastructure.	vs.	Increased fiscal constraints on government's ability to finance it.
Increased government demand for PPP as a method of financing infrastructure investment.	vs.	Increased uncertainty reducing the willingness and capacity of investors to invest, flight to quality away from riskier countries and projects.
Increased demand for government financial support (direct cash injections, subsidies, guarantees).	vs.	Reduced fiscal capacity of governments to offer such support.
Shift towards User-Pays revenue models to reduce pressure on the government budget.	vs.	Higher risk of public objections and/or resistance to PPP.

There is no standard or simple solution to navigating this minefield. Some options are presented in Section 4, however, individual government responses will be driven by their specific situations and priorities. In general, PPP best practices emphasize preparation, Value for Money (VFM) and appropriate risk allocation (see, for example, the PPP Certification Guide (World Bank/APMG, 2017)). This should be robust to even major unpredictable events such as the COVID-19 pandemic. However, governments are not always able to incorporate all of these practices into their PPP frameworks. In particular, it may be difficult to resist the temptation to take short-cuts in the interests of expediency. The fiscal constraints created by the pandemic will exacerbate this problem, increasing pressure on governments to see quick results.

The fact that COVID-19 has effectively put PPP plans on hold, at least temporarily, provides an opportunity for governments to review their PPP frameworks and plans in the light of the likely "new normal".

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