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# Lessons for Practitioners - Primer on Project Development Funds

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*The PPPRC section on Product Development Funds (PDFs) will be periodically updated to continuously identify lessons learned and success factors that influence the design and operationalization of PDFs. Let us know what you think by taking a Quick Survey.*

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There is no one “right” PDF design, only a PDF design which best supports project preparation in a particular jurisdiction. PDFs take a wide range of forms, whether an independent legal entity with complex revolving features intended to support a large number of projects, a much simpler separate line item in the budget, or anything in between. Ultimately, they are tools and must be designed to work within an existing environment for existing users. Their effectiveness therefore depends on how well they address the project preparation challenges facing PPPs in a specific country. Despite the fact that PDF design is necessarily contextual, there are clear lessons that may be useful to practitioners to develop effective PDFs.

**Ensure that the PPP enabling environment is sufficiently well developed to support appropriate preparation and implementation of PPP projects.**

PDFs support implementing agencies to prepare PPP projects, a process which is determined by the PPP project cycle and institutional roles defined in the prevailing PPP framework. Consequently, the PPP framework is often a critical building block for PDF design. The broader PPP enabling environment is also highly relevant for supporting PPP projects in accessing financing, and therefore must be sufficiently developed if PPP projects are to be successfully implemented. Without a conducive environment, PDFs are unlikely to be able to grow the PPP program.

Developing a clear understanding of existing PPP challenges is, therefore, imperative to enable effective sequencing of interventions. This should be done prior to establishing a PDF. Where institutional roles and responsibilities are unclear, these should be clarified prior to PDF design. Where there are broader project implementation issues, such as funding or financing challenges, these may be tackled in parallel to PDF development or otherwise taken into account in PDF design. Where there are specific project preparation challenges experienced in the PPP project cycle, these should be clearly identified, and if appropriate, addressed in the PDF design.

In all cases, practitioners considering the implementation of PDFs should ensure sufficient resources are available to support necessary PPP enabling environment reforms, and address challenges in implementing new processes. Development partner operations financing programmatic project preparation have frequently packaged support to include components for legal and institutional support to PPP frameworks, and may also be well placed to provide technical expertise and other capacity support.

Specific Recommendations:

- The effectiveness of PDFs is dependent on the PPP enabling environment. Prior to developing a PDF, assess the PPP enabling environment, and identify key barriers to effective project preparation and implementation. Ensure key challenges are either addressed prior to or in parallel with PDF

development, or are otherwise reflected within PDF design.
- Where internal resources for addressing challenges are not sufficient, seek development partner support to assess and help address PPP project preparation and implementation challenges.

**Determine a PDF's role within the PPP project preparation landscape early in the PDF design process.**

A PDF is only one part of the project preparation puzzle which relies on and co-exists with other sources of support. PDF design is therefore strongly impacted by the specific role it is expected to play, as defined by its scope, the nature and volume of projects it is intended to support, and how those projects are expected to be developed up to the point of PDF intervention. These decisions have a direct impact on PDF size and funding requirements. They will also shape engagement with implementing agencies to develop the PDF's pipeline and impact the PDF's expected closure rate. Decisions on the PDF's role and objectives should therefore be made early to appropriately inform the design process.

PDFs that engage later in the PPP project cycle will likely have lower per-project costs and a higher closure rate, but their ability to be successful remains dependent on robust project identification and selection processes. Without the necessary capacity and resources in place to support upstream project development outside of PDF intervention, deciding to engage at a later stage may be a false economy. In addition, funds expended on projects that are not subsequently successfully implemented as PPPs should not be considered wasted. There is considerable value to PPP programs in ensuring that poor projects are not taken to market. Moreover, practical experience appears the most effective way to build PPP capacity.[1] Implementing agency experience in the evaluation and preparation of projects, even where not successful, is extremely important for the long-term growth of the PPP program.

Defining the specific project preparation role that PDFs play is also important. Will the PDF be solely a funding resource? Or will it also be a source of technical expertise? Although a PDF's approach will depend on the specific project preparation challenges and PPP capacity in a country, efforts to ensure the quality and efficiency of project preparation must be balanced by the wishes of implementing agencies, which own the projects. Implementing agencies' demand for, and conscientious consumption of, PDF services is essential for a PDF to be successful. Working closely with implementing agencies during PDF design to understand their views, in addition to their strengths and weaknesses, is essential to driving commitment throughout the project development process.

Specific Recommendations:

1. Assess the resources available across the entire project preparation landscape, including funding for upstream project development, to ensure that a PDF's design is consistent with the likely PPP project pipeline.
2. Engage early with implementing agencies to identify project preparation challenges and design the PDF to reflect them.

PDF funding strategies should be realistic and consistent with a PDF's broader goals.

PDFs are predominately funded by governments and therefore do not typically relieve governments of the burden of supporting the costs of PPP project preparation. Although there are instances of development partners financing PDFs, and such support can be catalytic, this not common, and special care is often required to incorporate development partner financing in a way that best supports government objectives.

Initial PDF funding strategies should generally focus on government funding as a main source and seek to identify the quantum of funding that will realistically be allocated to the PDF in the near term. As a result, starting small may be appropriate; however, strong, continued political commitment will be necessary to drive the recurring or multi-year funding allocations to ensure a PDF is financially secure. PDFs which are not sufficiently funded over time are unable to meet their objectives.

Most PDFs should not be designed with the assumption that they will be financially sustainable. Few PDFs operate on a self-sustaining basis. Those that are self-sustaining tend to operate in large, mature PPP markets, focus solely on downstream project preparation activities, or both. Financial sustainability goals are therefore difficult to achieve and can serve to undermine a PDF's broader objectives. However, PDFs should consider whether using revolving features may support the PDF in achieving its objectives. Revolving features that help to encourage implementing agency commitment without unduly impacting project bankability are worth consideration in order to stretch scarce project preparation funding. Care should be taken to ensure that such features do not discourage PDF applications or skew the project preparation process towards closure no matter the cost.

Specific Recommendations:

1. PDF funding strategies should generally focus on determining the government funding allocation that can be made available, both initially and over time. Other sources should only be included in funding strategies where there is clarity that they will materialize. In particular, PDF design should acknowledge the challenges and/or implications of financial sustainability objectives.
2. Revolving features should be implemented where they are likely to support, or at least not undermine, a PDF's ability to achieve its objectives. Care should be taken to design revolving features that do not unduly impact project viability or implementing agency interest.

**A PDF's structure should be determined based on how to best enable the functionality a PDF requires to achieve its objectives.**

PDFs are not often institutions, nor do they have a personality of their own. Rather, they are tools which should be shaped to meet the needs of their users. Effective PDFs can be instruments that drive cultural change around the use of PPPs. As such, their specific legal structure, governance, and administrative model are less important than how and whether the PDF is accessed. Consequently, a PDF's structure is only important to the extent that it provides the flexibility and functionality necessary to support successful PPP projects.

In many cases, a PDF's structure is not visible to users, and PDFs are accessed in much the same way in many countries despite considerable structural differences. Developing an understanding of users, both PPP institutions and implementing agencies, and identifying challenges within the PPP project cycle, should support the determination of the required PDF functionality. How that functionality is translated into a formal PDF structure will vary considerably across countries, depending on local context, in particular public financial management and procurement requirements.

Avoid the introduction of complexity except where necessary to address existing project preparation challenges, and the needs of likely users and funders. The opportunity costs of designing such features, for funding sources or for project demand that may not materialize as expected, can be high. Smaller economies and less developed PPP programs, in particular, may benefit from lighter PDF structures which are less challenging to implement and which entail lower upfront resource commitment. PDF structures can then evolve to accommodate more sophisticated features or other PDF contributors as necessary.

Specific Recommendations:

- A PDF's structure should be dependent on local context. It should be determined based on how best to deliver the PDF functionality required to enable the efficient delivery of high-quality project preparation. Key factors that should be well understood include public financial management and procurement requirements.
- Design PDF structure based on an assessment of project preparation challenges, PPP program needs, and funding sources available in the near to medium term, and reevaluate the effectiveness of the structure as conditions change.

**PDFs must be user-focused and able to evolve over time to stay relevant.**

PDFs provide a support service. Their ability to be successful depends entirely on how well that service is leveraged by implementing agencies. Lessons related to the engagement of implementing agencies are therefore not only relevant during PDF design, but also throughout PDF operation. As PPP programs grow and experience with PPPs is gained, potentially as a result of successful PDF, the project preparation challenges experienced by implementing agencies, as well as the implementing agencies themselves, will change. Where new PPP frameworks are being implemented, the rate of change may be particularly rapid.

To stay relevant, a PDF's services will need to evolve alongside its users and the PPP enabling environment, and not always in a predictable fashion. Given this expectation, PDF design should be focused on addressing PPP project preparation challenges as they are currently understood, but also recognize that PDF scope, structure and/or funding strategy may need to change to meet PPP program needs. Regular business planning, including frequent assessment of the PPP pipeline and the incorporation of practical experience and lessons learned into PDF operations, can be useful to support a PDF as it evolves.

Specific Recommendations:

- Ensure that PDF design enables strong implementing agency project ownership.
- Allow sufficient flexibility within PDF design to enable PDF operations and offerings to evolve to meet changing challenges and requirements.
- Regularly review the PDF service offering and user requirements to lay the groundwork for necessary adaptations.

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Footnote 1: UNECE. 2008. Guidebook on Promoting Good Governance in Public-Private Partnerships.

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