Funding - 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.

PDFs are often thought of primarily as a funding source. Although it is clear that PDFs are much more than this, decisions related to how PDFs are funded, and the quantum of funds they are able to access, are central to their ability to deliver on their objectives. Funds which have lofty ambitions, but insufficient funding, will likely fail to deliver. Determining how to fund a PDF requires making decisions on where the funding will be sourced, how much will be required, both initially and over time, and whether the PDF is expected to operate on a self-sustaining basis.

This chapter discusses factors relevant for making the funding decisions necessary to implement a PDF:

- Funding sources: the various sources of funding a PDF may access either initially or over time;
- Funding requirements: estimating the funding a PDF may require to achieve its objectives; and
- Sustainability: determining whether to require repayment of project preparation costs, and how such decisions impact the ability of a PDF to achieve sustainability objectives.

Although split into separate sections as described below, these decisions interact with one another and must be considered together to arrive at an overall PDF funding strategy.

Sources of Funding

Although PDFs are usually designed to address funding challenges, the funds they leverage must generally be raised from constrained sources. In addition, the use of certain funding sources may impose requirements on the design of a PDF, for example with respect to the roles different funders may play in PDF governance or project selection. An understanding of potential PDF funding sources, as well as the implications of their use, is therefore essential to inform the development of a PDF. This section covers funding sources which may be used to support PDFs, including: governments, development partners, or even the private sector.

Government Contributions

Government contributions are by far the most common form of funding for PDFs, highlighting that PDFs do not often relieve governments of carrying the burden of PPP project preparation costs. This is similar to funding for other mechanisms that governments use to support the implementation of PPPs, such as public investment funds(PIFs), VGFs, and guarantee funds. [1] Every PDF reviewed for this Primer was funded either entirely, or in large part, through government contributions in various forms. Given the important role that governments play in supporting the implementation of PPP projects, this is not surprising. In fact, significant government investment in PDFs is seen as important to ensure that the government remains incentivized to support a PPP enabling environment that is conducive to generating successful projects. [2]

However, it does imply that establishing a PDF does not commonly enable governments to tap into other funding sources, leaving them responsible for most PPP project preparation costs.

The vast majority of government contributions to PDFs are provided through regular budget allocations. Although India's IIPDF was initially capitalized through a single, one-off contribution at the time of establishment, [3] most governments have made repeated contributions over the life of the PDF. In some cases, such as in Indonesia and South Africa, these allocations were designed to occur annually, based on expected near-term PDF funding requirements. In other cases, like that of the Philippines' PDMF, an initial funding allocation needed to be repeatedly increased when greater than expected demand materialized for PDF support. As a result, the initial government allocation of approximately US$7 million in 2013 reached nearly US$84 million in total government allocations by 2016; further allocations have not been necessary to date.

PDFs are rarely capitalized through extraordinary budget items. In contrast to PIFs, PDFs are not commonly capitalized through proceeds from the sale of assets or the transfer of assets, or bond issuances.[4] This may be a result of the fact that the sums required for supporting project preparation are generally significantly less than those necessary for carrying out investment activities. As noted in the following section, many PDFs have been initiated with US$10 million to US$20 million in funding or less. Among the PDFs reviewed for this Primer, Mexico's FONADIN is unique in that it was capitalized through the transfer of toll road assets, valued in excess of US$6 billion in 2020, and uses revenue generated from these assets to support its activities. However, FONADIN's activities include infrastructure investment as well as project preparation. Outside of FONADIN, Kenya, as a part of its recently revised PPP regulatory framework, levies a fee for the evaluation of unsolicited proposals (USPs) on private proponents. [5] Although this revenue stream is allocated to the PDF, it is not expected to be sufficient to fully fund the PDF; as of 2023, it has received approximately 50 million Kenya shillings (about US$360,000) from processing USPs.

Mexico's FONADIN: FONADIN's Capitalization

In 1997, in response to the Mexican Peso Crisis, the Mexican government acquired several brownfield toll road concessions from private concessionaires. By 2005, these concessions were generating positive net revenue, and a decision was made to reinvest this revenue in infrastructure development. FONADIN was subsequently established with the objective to prepare and finance infrastructure projects. It was capitalized through the transfer of the title to 53 highway segments.

As a part of its mandate to support the implementation of the National Infrastructure Program, a six-year roadmap for infrastructure development, FONADIN has supported the preparation of more than 76 projects and provided more than MX$130 billion (about US$8 billion) in financial support for infrastructure projects.

Revolving Features

PDF funding may also be sourced from reflows from projects supported by the PDF. Where used, these so called "revolving features"[6] generally take two forms:

- Success fees: these are fees that are typically payable when a project that has been prepared by the PDF successfully reaches financial close, often by the winning bidder. The payment usually consists of the project preparation costs expended by the PDF, plus an additional mark-up, added to cover administrative expenses or to support the costs of projects that have not reached financial close.
- Reimbursement requirements: these are fees that are payable when a project has not reached financial close, usually by the implementing agency that was seeking to implement the project.

Revolving features are sometimes incorporated into PDFs in order to stretch scarce project preparation capital.[7] However, funds generated through revolving features will not be realized for a number of years following a PDF's establishment and will likely build slowly over time as a PDF builds a successful pipeline of projects.[8] As a result, revolving features cannot be relied upon to support the funding requirements of a PDF in the early years of its operation.

Development Partner Funding

Development partners have provided extensive support for PPP project preparation. This includes support for the development of individual projects as well as of a wide range of guidance covering the entirety of the PPP project cycle. [9] The ability to support a range of projects through directly capitalizing a PDF or otherwise financing programmatic project preparation may therefore be of considerable interest, particularly because this support can also create future lending opportunities.[10] The use of development partner financing to capitalize a PDF is, in fact, relatively uncommon. Of the PDFs reviewed for this Primer, only two received development partner financing. The Philippines' PDMF received US$6 million in grant funding to establish its PDF, and additional grant funding of US$12 million to support greater than anticipated PMDF activity. [11] Even in this case, these funds represent less than 20 percent of the overall PDF funding, although in initial years the funds accounted for 44 percent. Following initial development partner financing for programmatic project preparation, Kenya's PFF received approximately US$16 million in loan proceeds designated for the PDF Window. Other PDFs have envisioned development partner contributions and reflected this in PDF design, for example in regulatory frameworks (Ghana), in financial management systems (India), or in the PDF governance framework (South Africa). However, to date, none of these PDFs have received development partner contributions.

Instead, development partner support has been most often provided via specific operations financing programmatic project preparation. A number of the countries reviewed for this Primer, including in Ghana, Indonesia, Kenya, Mexico, and Viet Nam, received support of this nature, often as part of broader support to the PPP program. In many cases, this support for project preparation has been considerable; for example in Vietnam, the ADB provided nearly US$30 million in loan proceeds to support programmatic project preparation. [12] In Ghana, a World Bank operation included a component that provided US$18 million for project preparation support, and in Kenya, the World Bank committed a total of US$57 million for project preparation support, some of which has flowed to Kenya's PDF Window. [13]

Kenya's PDF: The Role of Development Partner Project Preparation Support

WBG operations in Kenya have included a range of components designed to improve PPP project preparation. Initial components included funding for project preparation activities, which was followed by support for the design and implementation of a PDF and, ultimately, further funding for PPP project preparation channeled through the government PDF.

[insert chart]

Development partner financing of project preparation often entails specific requirements that need to be carefully considered. These requirements may include the application of procurement and environmental and social (E&S) policies that deviate from a country's own policies and may constrain project selection. Their

incorporation into a PDF may necessitate the application of these policies to all PDF projects or may require the PDF to manage separate pools of financing, subject to different constraints. In the case of the Philippines PDMF, development partner financing and government funds were commingled, helpfully enabling the application of ADB procurement rules to the entire PDF. In the case of Kenya's PDF Window, projects receiving funding from World Bank loan proceeds are subject to different E&S requirements than those funded from other PDF Window funds. Where development partner support is managed separately to a PDF, such requirements can be more easily applied to development partner financing alone and therefore reduce the impact on a government's PDF. This may be a factor in the relative lack of development partner support through PDFs.

Development partner engagement can be critical for the establishment and operationalization of PDFs. Programmatic project preparation financing provided by development partners is often accompanied by support for the operationalization of project preparation processes, as well as access to technical expertise that can support both project preparation activities and upstream PPP policy and broader institutional development to enhance the PPP enabling environment. [14] Some engagements may also include specific support for PDF design and operationalization. For example, in Indonesia, the World Bank supported an evaluation of PDF design options and development of standard operating procedures (SOPs) for the PDF, in addition to providing complementary programmatic project preparation financing. In Kenya, a World Bank operation was designed specifically to support the subsequent establishment of a PDF by including tasks related to its operationalization, such as the drafting of regulations and building of relevant capacity. This support was then useful in creating Kenya's PDF Window under the PFF.

However, if not carefully designed, development partner financing of programmatic project preparation financing via specific operations may not contribute to sustainable PDF institutional development. In particular, the development of parallel processes and structures may be burdensome for the implementing government, or may otherwise fail to become institutionalized as part of a government PDF. For example, in Jamaica, a World Bank operation focused narrowly on support to a specific project pipeline and did not include support for the development or management of a government PDF.[15] Similarly, in Nigeria, World Bank financing did include a large component on the strengthening of PPP institutions and other capacity building support, but did not include any specific support to establish or operationalize a PDF. Although such approaches may be useful to deliver critical projects, the benefits of such support could be maximized by establishing procedures which mirror as closely as possible the procedural and institutional frameworks that would apply to a government PDF. This approach can support capacity and institutional development which is sustainable beyond the time horizon of the development partner's involvement.

Private Funding

Private investors have been noted as possible contributors to facilities that focus on project preparation, [16] with at least one study outlining a hypothetical approach to mobilizing private funds. [17] Investors are expected to have an interest in participating in such facilities in order to support improved project pipelines that will generate future investment activities in addition to providing long-term returns. [18] The applicability of private investment to PDFs, where the government retains full control of decisions on funding allocation, is less clear.

Project preparation activities are viewed as high risk, and generally unsuitable for private financing. If a project preparation facility is not able to recuperate sufficient funds to both recover initial costs and to generate a return, it will not be able to attract private investors. This implies that any facility wishing to raise private capital must generate income from successful projects. Even where PPP project preparation enables the generation of income, not all projects will be successful, particularly in less developed PPP markets.[19] As a result, government project preparation is viewed as "high-risk … with questionable riskreturn profiles."[20]

In exceptional circumstances, the creation of ring-fenced subsidiary funds can raise private financing for project preparation. However, this is primarily where these funds focus on lower-risk, later-stage project

preparation activities. For example, Mexico's FONADIN has created FEPI,[21] which has raised funding from private construction companies to support project preparation. Brazil's national development bank, BNDES, has also raised private funding for project preparation from several large banks active in financing PPP projects in Brazil.[22] In both cases, separate funds were created to ring-fence downstream project preparation activities, with the funds playing a role more similar to that of a project developer than a funder of consultancy work. In addition, projects supported by these funds leverage significant upstream project development that has already been completed.

Private contributions to PDFs are likely to remain limited in many markets. It is unlikely that PDFs will be able to remain under government control while also demonstrating sufficient independence to attract private investment. In addition, raising private financing for project preparation would also require: the existence of a large, relatively mature PPP market; the participation of a local DFI with well-established governance systems; and a track record demonstrating that the PDF is able to generate a return for private investors.[23] Many government PDFs will not be able to leverage these attributes, and will therefore remain reliant on other sources of funding, particularly during initial years of PDF operation. The complexities of incorporating private capital into the design of a PDF should also not be overlooked. The typical governance arrangements described in Chapter 3.3, where decisions on funding allocation are made by government stakeholders, would likely not be acceptable to private investors. In addition, the conflicts of interest which can arise from private funding of early-stage project preparation work requires careful management.

Key Takeaways

- PDFs do not generally relieve governments of carrying the burden of PPP project preparation costs, because they are often funded either entirely or substantially from government contributions, normally provided through regular budget allocations.
- Development partner support to project preparation brings considerable benefits tied to the ability to access critical capacity, whether directly through a PDF or through an operation that finances project preparation. However, careful design is necessary in order to manage development partner requirements within a government PDF or ensure development partner operations support broader PDF institutionalization.
- Private funds are rarely used to support PDF funding requirements and are most relevant for well established PDFs in large and mature PPP markets.
- Revolving features may be a source of funds for PDFs, but are not able to support PDF funding requirements in early years.

Funding Requirements

Reports discussing PDFs frequently mention the need for large initial capitalization commitments to support project development.[24] However, the funding that a PDF may require, either initially or over time, is ultimately dependent on specific considerations, including the overall objectives and design of the PDF, specific funding and operational decisions, and the maturity of a PPP program. This section discusses the implications of key funding decisions on funding requirements and the funding that PDFs have received in practice, to assist in developing a funding strategy for a PDF.

PDF funding requirements are largely based on estimates of the project preparation costs that a PDF is expected to support on an annual basis. PDF administration costs, which are further discussed in Chapter 6.1, are often borne by the PDF host institution, most often a PPP unit. PDF costs are therefore generally a function of typical project preparation costs and timing, as well as the number of projects and proportion of project costs a PDF is expected to support. Detailed studies undertaken to estimate expected PDF project preparation costs seem relatively uncommon; most estimates in PDF planning documentation seem to be

based on general assumptions such as those highlighted below.

Figure 7: Estimation of PDF Project Preparation Costs

Preparation Costs	The costs of project preparation are relatively similar internationally. They are reported to average 5 percent of the total project cost, with smaller projects having higher costs, potentially in the range of 7 percent to 10 percent, whereas larger projects may have costs in the range of 1 percent to 2 percent.[25] Dollar value estimates seen in different reports of typical project costs considered when developing PDFs include: US$550,000[26]; averages of US$2.5 million[27]; a range of US$1 million to US$5 million[28]; and an average cost of US$3 million.[29]
PDF Share of Preparation Costs	PDFs do not generally bear the full cost of project preparation because many PDFs do not provide support until initial pre-feasibility work is undertaken. [30] In addition, although uncommon, PDFs may also require implementing agencies to pay a portion of preparation costs, reducing the amount that is payable by the PDF. [31] A review of data from six project preparation facilities noted that the actual development costs they have borne averaged only 0.5 percent of capital costs and dollar value costs averaging US$600,000. [32] These costs are generally lower than the total project preparation costs referenced above. It is unclear whether these cost levels are the result of PDFs electing to bear only a portion of project preparation costs or if they reflect PDFs underspending on project preparation.
Preparation Timing	A range of one to four years per project is noted, [33] but a three-year average is most commonly used. [34]

The number of projects a PDF aims to support is a key driver of funding requirements, and supporting a large project pipeline could require significant funding. The assumptions above, combined with the choices a government may make in terms of how many projects it expects a PDF to support simultaneously, yields a wide range of annual PDF expenditures. The table below demonstrates this range, by looking at two hypothetical PDFs: one aiming to support six projects simultaneously, which may be relevant for smaller economies or nascent PPP programs; and one targeting 15 active projects, which may be more relevant for larger economies or more developed PPP programs. [35] As a point of comparison, in the Philippines, a country with significant PPP experience that has closed more than 150 PPP projects,[36] the PDMF has supported 45 projects over approximately 10 years, averaging 4.5 projects per year. Very large PPP programs interested in supporting a significant project pipeline through a PDF may require more funding than the hypothetical examples below.

Figure 8: PDF Annual Funding Requirements (hypothetical example) [37]

(US$, millions)	PDF approving two applications per year (six active projects at a time)		PDF approving five applications per year (15 active projects at a time)	
	Low	*High*	*Low*	*High*
Average Project Cost Assumption	0.6	2.5	0.6	2.5
Annual Funding Requirement (year 3 onwards)	1.2	5	3	12.5
Funding Requirements for 10 years	10.8	45	27	112.5

Many countries have, however, established successful PDFs with US$20 million or less. A lower funding level may reflect a decision to support fewer projects per year. This could be due to limitations on the number of PPP projects that can likely be delivered successfully, given the size of the relevant country economy and the maturity of its PPP program. PDF size is also a policy decision related to the role the government wants the PDF to play in supporting individual PPP projects and the PPP program overall. For example in India, a country with a very large economy, the IIPDF was capitalized with a relatively small initial contribution of Indian rupees (Rs) 100 crore (about US$12 million). This funding was expected to complement a number of other PPP program reforms that included legal and institutional framework development, as well as establishment of a VGF and a PPP financing vehicle (the IIFCL).

Total funding requirements do not need to be available at the time the PDF is established. Although many studies discuss the capitalization of a PDF as if it were a one-time event, the total funding requirements do not necessarily need to be available on day one, because project expenditures occur over time. Even large PDFs that support dozens of projects simultaneously have provided this funding over time. The Philippines established the PDMF as part of the launch of its PPP program with US$13 million in initial contributions from both development partners and the government. Over time, an additional US$85 million has been contributed, to enable the PDMF to increase the number of projects it can support and the implementing agencies with which it can engage.

A smaller initial PDF size may be particularly appropriate for supporting less developed PPP programs. As discussed further in Chapter 6.2, many PDFs have struggled to attract sufficient demand from implementing agencies, a challenge that is greater while the concept of PPPs is being established and/or the PPP framework is still being tested. A smaller initial PDF fund size targeting fewer projects has been recommended to allow time to build capacity and experience before increasing the size of the fund.[38] Starting with a smaller PDF size and scaling as required has been a successful approach in a number of countries. In addition to the example of the Philippines mentioned above, the South African PDF, which received over US$38 million in contributions in total, received only a 6 million rand (R) grant (about US$1 million in 2003 dollars) in the first year following its establishment.[39]

However, a funding strategy that involves scaling up over time runs the risk that funds necessary to achieve PDF objectives will not be made available. For example, in business planning estimates in Indonesia, funding requirements were estimated for an initial 27 month period, at US$20 million to support 10 projects, with more than US$7 million targeted for expenditure by the end of 2017; however, as of 2017, only US$5.5 million of the budgetary allocation had been provided. In Kenya, the government targeted a US$20 million annual contribution to the PDF Window, [40] but to date, only about US$3.5 million has been provided. It is not always clear why these PDFs have not been funded in line with their targets. It could be a result of slower than expected uptake of PDF services, government fiscal space constraints, or the availability of project preparation funding outside of the PDF.

Key Takeaways

- A range of factors influence a PDF's funding requirements, including project costs, project development timing, the level of PDF support provided to individual projects, and when in the project development cycle a PDF decides to engage.
- PDF funding requirements vary widely, but can require substantial capital to support a large volume of projects. However:
    - A large volume of projects is not necessarily appropriate for all PDFs. The appropriate volume depends on the size of the economy, the maturity of the PPP program, and the role the PDF is expected to play in the development of the PPP program.
    - In practice, many PDFs are initially funded with US$20 million or less, with additional funding contributed as the PDF develops.

Revolving Funds and Sustainability

Almost all available literature on PDFs stresses that they should be designed with attributes that support some level of sustainability, enabling a PDF to stretch the use of its resources and reduce the immediate need for additional funding once an initial contribution has been made. This is dependent on the PDF including one or more revolving features, which can enable cost recovery of project preparation expenditures,[41] including in the event of a failure to complete a project.[42] Funding contributions from external sources, such as government or development partner contributions, are primarily referenced as being necessary to support the PDF in its early years before it is able to support a pipeline of successful projects.[43]

The implementation of revolving features can reduce the need for external funding to support the PDF's costs. To understand the potential reduction in need for external funding, other decisions and assumptions are necessary around how the revolving feature(s) will work, including:

- Under what circumstances is repayment required? Revolving features most often focus on recovering funds from a winning bidder when a project reaches financial close; however, PDFs may also require repayment from implementing agencies for unsuccessful projects in some situations.
- How much must be repaid? This is often the full project preparation costs incurred by the PDF, plus a mark-up, with the mark-up varying considerably.
- How many projects will reach financial close? This may vary considerably from country to country, based on PPP program maturity and the nature of projects that are being considered.

However, complete sustainability appears possible only in a relatively narrow set of circumstances. In hypothetical modeling, PDFs are not able to achieve full sustainability even in scenarios with success rates of about 70 percent and when funds are recovered from projects that close successfully without any markup. [44] Sustainability therefore appears to require a combination of high success rates, success fees which include a mark-up over the cost of project preparation, [45] and/or repayment of funds in the event of project failure at least in some circumstances. [46] In practice, these conditions are difficult to achieve: it is commonly noted that many project preparation facilities, including PDFs, do not generally achieve financial sustainability, [47] and are therefore reliant on grants and public funding. [48] In addition, as noted in Chapter 6.1, PDF operating costs are often borne by the government budget, further complicating the question of sustainability.

Success rates that would enable sustainability, in particular, are difficult to achieve. Assumptions for success rates for PDF projects, in studies on PDFs and in individual countries' planning documents,[49] tend to hover around 75 percent. [50] However, data from actual preparation facilities experience demonstrate that these assumptions may not be achievable. Data from six preparation facilities with significant development partner support found success rates of less than 66 percent.[51] Brazil's EBP, a highly experienced division that focuses on downstream project structuring activities, has only achieved rates of 72 percent of projects reaching closure.[52] Project success rates are expected to be lower where PPP experience is limited or in less developed markets.[53]The limited data available bear this out. A survey of a wide range of funds providing

project preparation capital in Africa and Southeast Asia indicated success rates of 25 percent and 37 percent, respectively. [54]

Philippines' PDMF: Revolving Features

The Philippines PDMF adopted a comprehensive approach to recover project preparation costs. Building on the experience of a smaller earlier PDF supported by the US Agency for International Development (USAID), it requires some reimbursement for all projects it supports.

The PDMF defines a "recovery fee" that is equal to the cost of project preparation plus a 10 percent mark-up. Implementing agencies must commit to reimburse the following:

- If the project reaches financial close: 100 percent of the recovery fee, paid by the winning bidder;
- If the project does not reach financial close:
    - If due to reasons outside of the implementing agency's control: 50 percent of the recovery fee; or
    - In all other cases: 100 percent of the recovery fee.

The PDMF has been successful in receiving reimbursements, although payments due from implementing agencies are often received after a delay because of the need for these funds to go through the budgeting process. However, due to the substantial funding the PDMF has received from government and donor sources, the PDMF has not had to rely on reimbursements to support PPP project preparation.

Clear enabling provisions are generally necessary to implement revolving features. The approach to enable and implement a revolving feature is country-specific, because it depends on a PDF's structure and applicable public financial management rules. In Viet Nam, legally allowing a project preparation fund to accept project reflows required a special decree, which delayed its implementation by nearly five years.[55] The ability to accept project reflows in a PDF was clearly enabled when the PPP framework was revised in 2020, but to date has not been used because Viet Nam has not established a PDF. In Indonesia, PDF establishment documentation only allowed for contributions from the government budget, precluding the acceptance of fund reflows. To remove this restriction, its PDF decree was updated in 2018; however, a revolving feature has not yet been implemented. Although revolving features were enabled for the PDF Window as a part of Kenya's 2013 PPP legal and regulatory framework, the 2021 PPP Act added clearer wording on the rights of the PDF Window to collect success fees (as much as 1 percent of project costs) and recoverable project costs.

Success fee requirements are not regularly imposed. Where such requirements exist, they vary across PDFs. Out of the PDFs reviewed for this Primer, only three considered the use of success fees. In South Africa, success fees were only payable for certain projects as determined at the time PDF funding was awarded. Although both India's IIPDF[56] and the Philippines' PDMF required the payment of a success fee for all projects receiving PDF support, the fee itself varied. The PDMF requires that all successful projects reimburse project preparation costs, plus a 10 percent markup. The IIPDF also required the repayment of project development expenses plus a mark-up; however, the size of the mark-up was determined by the nature of the project, with BOTs/concessions paying 40 percent, management contracts paying 25 percent, and zero for non-revenue generating projects. In general, repayments to PDFs have been made as required, because the obligation to pay is the responsibility of the winning bidder under project agreements.

In rare cases, PDFs have also required repayment when projects are unsuccessful. This approach positions the PDF as a tool for financing, rather than funding, project preparation costs, which creates strong incentives

for implementing agencies to implement projects, where viable. This positioning was explicit for India's IIPDF prior to the 2022 redesign, because the funding was provided in the form of an interest-free loan, which was to be repaid. [57] Under the Philippines' PDMF, this positioning is less direct. It requires implementing agencies to commit to repay the project preparation costs themselves if the project is not awarded, but reduces the payment to 50 percent of the recovery fee if the failure to award was outside of the implementing agency's control, such as where a project fails to attract appropriate bids.

Although the use of revolving features is unlikely to result in PDF sustainability, their application may still be beneficial for PDFs. These features can enable the recovery of funds that will reduce a PDF's reliance on continued contributions from government or development partners. Although the enforceability of repayment requirements may not be legally or politically straightforward, any tool that can stretch scarce project preparation funding merits consideration. The use of revolving features is also expected to support increased ownership from implementing agencies, [58] and a deeper focus on achieving success may translate into the development of more bankable projects, [59] and better support the development of the PPP program. Given the challenges noted related to the commitment of implementing agencies, [60] these features are worthwhile to consider even where cost recovery is not a core objective.

However, a commitment to achieving a high success rate can have undesirable consequences. PDFs with a strong emphasis on achieving sustainability targets may focus on later stage projects or those which are otherwise perceived to have a higher chance of success. This approach can undermine a PDF's ability to support high-quality, efficient project preparation, particularly where other project development resources and capacity are scarce, as discussed more fully in Chapter 5.2. This may also bias project selection against projects which are likely to require government support in order to be viable. In addition, PDF staff and implementing agencies that focus on success fees may be biased towards project closure, potentially pushing projects which are marginal or should be cancelled for further study.[61] This bias has also been linked to compromises in project preparation to enable faster project completion.[62]

In addition, the use of revolving features has implications for implementing agencies and project costs that should be carefully considered. A key concern is that the use of revolving features will reduce the attractiveness of the PDF for implementing agencies, and therefore undermine the PDF's ability to achieve project development objectives. This concern has contributed to Indonesia's decision not to implement revolving features in its PDF. Revolving features have also been removed from PDFs to encourage PDF usage. When India's IIPDF was re-designed and re-launched with additional funding in 2022, it removed the requirement for any refunding of project preparation expenses. This change was designed to address concerns from implementing agencies that the need to price success fees into bid prices unnecessarily drove up project costs.

Key Takeaways

- PDFs are widely expected to be financially self-sustaining and capable of operating indefinitely if they include a revolving feature and are sufficiently capitalized at their inception.
- In practice, there is limited evidence that PDFs can operate on a self-sustaining basis, due to both low project success rates and practical challenges in the implementation of revolving features.
- Nevertheless, even if full sustainability is not achieved, revolving features do provide other benefits, including better leveraging scarce funding and helping to increase implementing agency commitment to PPP project development.
- However, their use should be balanced with need to ensure that PDF support is attractive to implementing agencies and that project development incentives are appropriately aligned.

Footnote 1: WBG. 2020. Global Review of Public Infrastructure Funds; and ADB. 2016. PPP Funds: Observations from International Experience.

Footnote 2: ADB. 2012. PPP Operational Plan 2012-2020.

Footnote 3: India's IIPDF received a budgetary contribution of Rs 100 crore (about US$12 million) from the Ministry of Finance (MoF) in 2007. A further one-off allocation of Rs 150 crore (about US$18 million) was allocated by the MoF in 2022 when the IIPDF was relaunched.

Footnote 4: WBG. 2020. Global Review of Public Infrastructure Funds.

Footnote 5: These fees are charged at a rate of US$50,000 or 0.1 percent of project cost.

Footnote 6: Considerations for the use of revolving features are discussed in more detail in Chapter 4.3.

Footnote 7: ICA. 2012. Assessment of Project Preparation Facilities for Africa.

Footnote 8: ADB. 2012. PPP Operational Plan 2012-2020.

Footnote 9: WBG. 2021. "Building Stronger Institutions to Deliver Better PPPs (P173186) Issues Paper: Identifying Critical Factors for Success and Challenges of Implementing a PPP Program." Unpublished.

Footnote 10: ADB. 2016. A Project Development Fund for Mongolia's Public-Private Partnerships.

Footnote 11: ADB. 2012. Major Change in Technical Assistance: Philippines: Strengthening Public-Private Partnerships in the Philippines.

Footnote 12: ADB. 2021. Viet Nam: Public–Private Partnership Support Project Completion Report.

Footnote 13: World Bank support to programmatic project preparation financing in Kenya was restructured in 2021 and partly allocated directly to Kenya's PDF.

Footnote 14: GIH. 2019. Leading Practices in Governmental Processes Facilitating Infrastructure Project Preparation.

Footnote 15: WBG. 2014. Jamaica Foundations for Competitiveness and Growth Project Appraisal Document.

Footnote 16: Fioravanti, R., C. Lembo, and A. Deep. 2019. Filling the Infrastructure Investment Gap: The Role of Project Preparation Facilities: An Overview of MDBs and the Inter-American Development Bank Approach. IADB.

Footnote 17: WEF. 2015. A Principled Approach to Infrastructure Project Preparation Facilities.

Footnote 18: WEF. 2015. A Principled Approach to Infrastructure Project Preparation Facilities.

Footnote 19: ADB. 2012. PPP Operational Plan 2012-2020.

Footnote 20: WEF. 2015. A Principled Approach to Infrastructure Project Preparation Facilities.

Footnote 21: Fideicomiso Fondo Para El Financiamiento De Estudios Para Proyectos De Infraestructura.

Footnote 22: WEF. 2015. A Principled Approach to Infrastructure Project Preparation Facilities.

Footnote 23: Fioravanti, R., C. Lembo, and A. Deep. 2019. Filling the Infrastructure Investment Gap: The Role of Project Preparation Facilities: An Overview of MDBs and the Inter-American Development Bank

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Footnote 27: Fioravanti, R., C. Lembo, and A. Deep. 2019. Filling the Infrastructure Investment Gap: The Role of Project Preparation Facilities: An Overview of MDBs and the Inter-American Development Bank Approach. IADB.

Footnote 28: ADB. 2012. PPP Operational Plan 2012-2020.

Footnote 29: ADB. 2012. PPP Operational Plan 2012-2020.

Footnote 30: See Chapter 5.2 for a fuller discussion of the stage in the project preparation process when PDFs engage.

Footnote 31: See Chapter 5.4 for a fuller discussion of project preparation co-funding requirements.

Footnote 32: G20 Working Group. 2014. Assessment of the Effectiveness of Project Preparation Facilities in Asia.

Footnote 33: ADB. 2012. PPP Operational Plan 2012-2020.

Footnote 34: Fioravanti, R., C. Lembo, and A. Deep. 2019. Filling the Infrastructure Investment Gap: The Role of Project Preparation Facilities: An Overview of MDBs and the Inter-American Development Bank Approach. IADB; and ADB. 2012. PPP Operational Plan 2012- 2020.

Footnote 35: These estimates reflect a range which may be appropriate for many PPP programs. Based on data from the PPI Database for 133 developing countries, approximately half closed fewer than 10 PPP projects over their lifetimes, and less than 12 percent closed more than 100.

Footnote 36: WBG PPI Database. 2023. PPI Data.

Footnote 37: Funding requirements do not take into account any potential fund reflows.

Footnote 38: ADB. 2012. PPP Operational Plan 2012-2020.

Footnote 39: Government of South Africa. 2004-2014. Project Development Facility (PDF): A Trading Entity Managed by the PPP Unit of National Treasury, Annual Financial Statements.

Footnote 40: Government of Kenya. 2018. PFF Business Plan.

Footnote 41: ICA. 2012. Assessment of Project Preparation Facilities for Africa; Fioravanti, R., C. Lembo, and A. Deep. 2019. Filling the Infrastructure Investment Gap: The Role of Project Preparation Facilities: An Overview of MDBs and the Inter-American Development Bank Approach. IADB; and GIH. 2019. Leading Practices in Governmental Processes Facilitating Infrastructure Project Preparation.

Footnote 42: ADB. 2012. PPP Operational Plan 2012-2020.

Footnote 43: ADB. 2016. A Project Development Fund for Mongolia's Public-Private Partnerships.

Footnote 44: ADB. 2012. PPP Operational Plan 2012-2020.

Footnote 45: WEF. 2015. A Principled Approach to Infrastructure Project Preparation Facilities.

Footnote 46: ADB. 2012. PPP Operational Plan 2012-2020.

Footnote 47: G20 Working Group. 2014. Assessment of the Effectiveness of Project Preparation Facilities in Asia.

Footnote 48: WEF. 2015. A Principled Approach to Infrastructure Project Preparation Facilities.

Footnote 49: India assumed a 25 percent non-recovery rate, and South Africa assumed 75 percent of PDF projects would be closed successfully; Kenya assumed that it would reach a 75 percent success rate within eight years.

Footnote 50: Fioravanti, R., C. Lembo, and A. Deep. 2019. Filling the Infrastructure Investment Gap: The Role of Project Preparation Facilities: An Overview of MDBs and the Inter-American Development Bank Approach. IADB.

Footnote 51: G20 Working Group. 2014. Assessment of the Effectiveness of Project Preparation Facilities in Asia.

Footnote 52: WEF. 2015. A Principled Approach to Infrastructure Project Preparation Facilities.

Footnote 53: ADB. 2012. PPP Operational Plan 2012-2020.

Footnote 54: SDIP. 2018. Insights on Project Preparation and Development Capital in Africa and the ASEAN Region.

Footnote 55: ADB. 2021. Viet Nam: Public–Private Partnership Support Project Completion Report.

Footnote 56: The IIPDF stopped requiring reimbursement of project preparation expenses on its relaunch in 2022.

Footnote 57: Note that if the project failed to achieve closure through no fault of the implementing agency, the requirement for repayment was waived.

Footnote 58: G20 Working Group. 2014. Assessment of the Effectiveness of Project Preparation Facilities in Asia.

Footnote 59: Global Infrastructure Basel. 2014. Unleashing Private Capital Investments for Sustainable Infrastructure Greenfield Projects: Scoping Study regarding the Early Stage Project Preparation Phase.

Footnote 60: See Chapter 5.4 for a more detailed discussion of issues related to implementing agency commitment.

Footnote 61: ADB. 2016. A Project Development Fund for Mongolia’s Public-Private Partnerships.

Footnote 62: GIH. 2019. Leading Practices in Governmental Processes Facilitating Infrastructure Project Preparation.

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