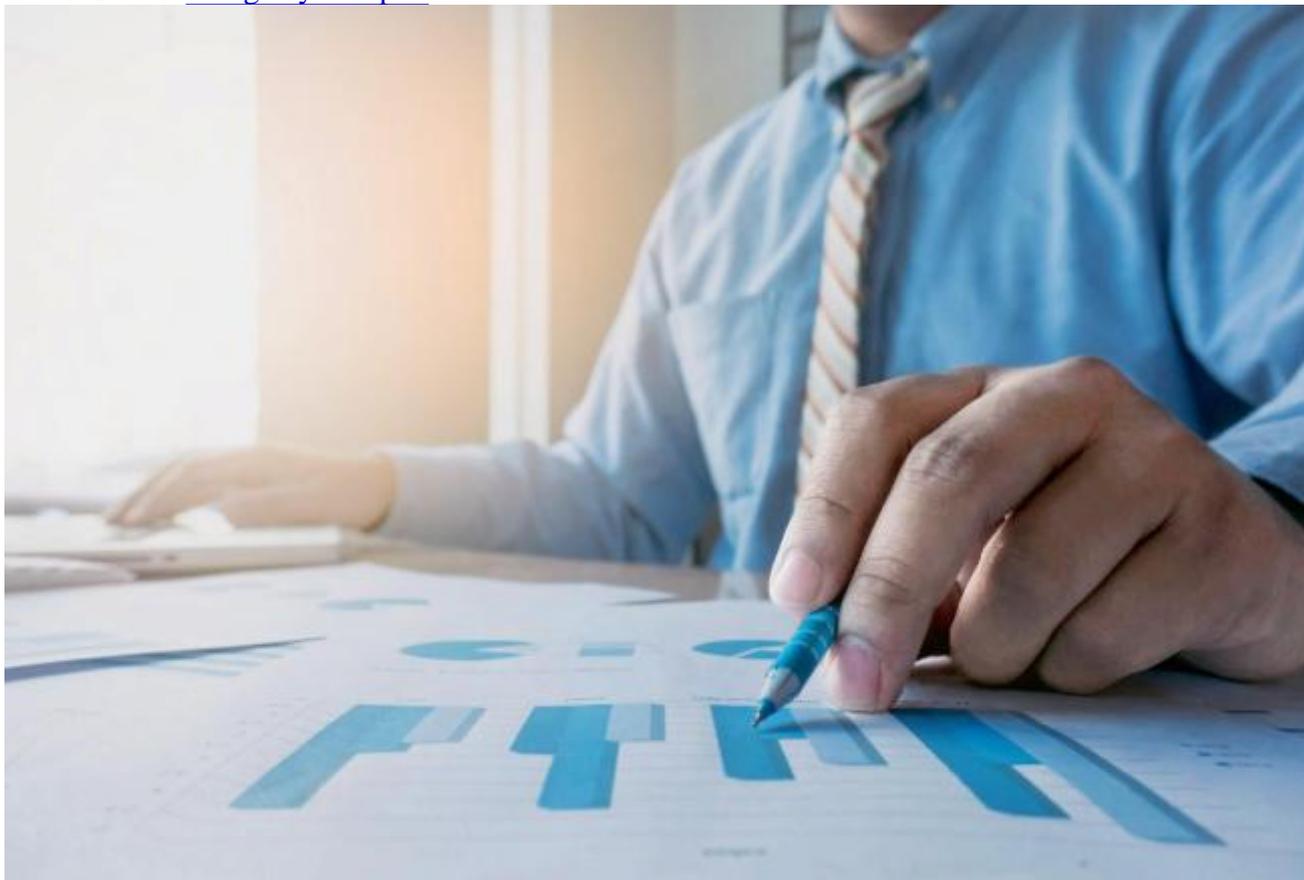


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Motivations and Experience - Primer on Project Development Funds

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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](#).

Constrained financial resources are a key impediment to the preparation of bankable projects and the overall success of PPP programs.¹ The allocation of additional, dedicated funding to PPP project preparation is therefore a key motivation for the establishment of PDFs. However, PDFs can also provide broader support to a PPP program, improve the quality and efficiency of PPP project preparation, and address country contextual PPP program challenges. This chapter discusses the range of motivating factors behind the establishment of the PDFs reviewed for this Primer. It also highlights the extent to which PDFs have been able to address PPP program challenges and contribute to their success.

Why Do Countries Consider Establishing a PDF?

Successful PPP programs rely on high quality project preparation, but funding to meet these needs is frequently insufficient. Infrastructure investment needs, a lack of fiscal space, and constrained public budgets are often a key motivation for the development of PPP projects and programs in emerging markets. The

development of a successful PPP program, however, requires robust project preparation to develop quality projects and reduce project risks.² As noted above, this project preparation process is often more costly than the one for conventionally delivered projects.³ These higher costs create a funding challenge for PPP programs and can become a key constraint to their success.

PDFs are often seen as mechanisms to support the allocation of funding to PPP project preparation. The challenges of allocating funding towards the high cost of developing a PPP must be overcome if a country is to develop a successful PPP program. Some countries have done so without the creation of a PDF. For example, Colombia and Turkey have each closed more than 200 PPP transactions.⁴ However, other countries have seen a need to develop a mechanism to ensure the timely availability of funds for the hiring of transaction advisors to: undertake feasibility studies and project due diligence; design and structure PPPs; and prepare tender documents. PDFs can serve to provide this dedicated funding for project preparation, both through increasing project preparation funding and by helping to consolidate scarce resources. Development partners may also directly encourage the establishment of PDFs to systematically support project preparation funding.

However, the challenges that undermine effective PPP project preparation support often cannot be addressed by funding alone. In Indonesia, an initial PDF known as the Indonesia Project Development Fund (IPDF), was established in BAPPENAS (the national planning agency), with US\$22 million of project preparation funding.⁵ Despite supporting the preparation of more than 30 projects, only three projects were successfully awarded and only 65 percent of funding was expended. These results were due to a number of challenges within the PPP program that inhibited effective project preparation, including weak capacity for PPP project identification, insufficient coordination with implementing agencies, and a lack of commitment to deliver projects as PPPs. Recognizing these and other challenges, development partners often provide support to PPP programs, which couples project preparation financing with support for the overall project preparation process, as in Ghana, Indonesia, Kenya, Nigeria, and Viet Nam. For example, in Kenya, the first phase of development partner financing to the PPP program included US\$20 million for project preparation. This financing was supplemented by significant additional specialist support for capacity building, legal and regulatory reform, assessment of financing instruments, and fiscal commitments and contingent liabilities (FCCL) framework issues, which totaled US\$16.5 million.⁶

Accordingly, PDF objectives must go beyond solely providing funding for PPP project preparation to have a broader focus on increasing project preparation quality and efficiency. Consistent with the recognition that PDFs are “more than just pots of money,”⁷ improving the project preparation process is a core objective of PDFs. PDFs may therefore be better thought of as tools to support PPP units and similar institutions to consolidate PPP capacity and facilitate the transmission of good practice across a PPP program.⁸ They can be used to accelerate capacity creation and socialize the fundamentals of PPP project preparation, particularly in markets where PPP experience is limited. For example, South Africa established a time-bound 10-year PDF, with the intention that this timeframe would build familiarity with PPPs while the concept was new in the country. Successful PDFs are therefore outcome-focused and seek to increase bankable projects in a PPP market,⁹ while recognizing that achieving these outcomes is often about far more than shortages in funding for preparation work.

In order to achieve improvements in the quality and efficiency of PPP project preparation, PDF design should take into account specific project preparation challenges. Although there are numerous factors that impact project preparation across PPP programs, a number were commonly noted as key considerations for PDF establishment or design, including

- **Increasing capacity for PPP project development.** Capacity is widely seen as being critical to the development of successful PPP programs and PPP projects, which many government agencies often lack.¹⁰ This is a significant challenge that stymies the translation of infrastructure needs into bankable projects.¹¹ The provision of PDF funding can create an opportunity to support public sector capacity development.¹² For example, Kenya’s PDF directly provides capacity support to implementing

agencies. PDFs are also commonly involved in the design and management of consultant and advisor contracts. ¹³ Indirectly, PDFs may also encourage closer interaction between PPP units and implementing agencies, helping to ensure that PPP unit capacity is leveraged over the course of the project preparation process. ¹⁴

- **Encouraging the use of PPPs** . PPPs provide an alternative to traditional infrastructure delivery via implementing agencies. As such, the implementation of PPPs requires implementing agencies to develop new skills and to work in different ways, which can challenge established interests. ¹⁵ The longer and more expensive PPP project preparation process, compared to conventionally procured projects, can disincentivize implementing agencies from pursuing PPPs, particularly where there is no clear path to obtaining the funding necessary for project preparation. By providing such a path, as South Africa's PDF did, PDFs can encourage implementing agencies to consider PPPs as a project delivery approach, and support a cultural shift towards the use of PPPs, where appropriate.
- **Enabling the selection of qualified advisors**. The procurement of advisors with the requisite expertise to support PPP project preparation is a common challenge in PPP project preparation, often due to the high perceived cost of PPP advisors. PDFs are often designed to tackle procurement and other issues which inhibit the ability to select quality advisors or otherwise result in inefficiencies and delays. These design features range from structuring the PDF to avoid the application of public procurement rules which would not support quality advisor selection, to using empanelment approaches to improve efficiency, as, for example, in Indonesia and the Philippines.

Key Takeaways

- PDFs are often thought of primarily as a funding source. However, although supporting the provision of dedicated funding to PPP project preparation is clearly an important motivation, PDFs often have much broader objectives associated with improving the quality and efficiency of project preparation.
- Broader PDF objectives depend on the specific project preparation challenges within a country. However, common secondary objectives have included: increasing capacity in the project development process, encouraging the use of PPPs more generally, and addressing procurement challenges and inefficiencies.

In What Context Do Countries Consider PDFs?

PDFs are most often established in PPP programs which have built some experience and capacity in the preparation and implementation of PPPs. In the Philippines, an initial build-operate-transfer (BOT) program was highly successful in the 1990s but plateaued in the 2000s. The establishment of the PDF, the Philippines Project Development and Monitoring Facility (PDMF), was a part of a series of interventions implemented from 2010 to 2012, including the restructuring of the PPP unit and enactment of a new PPP law, designed to revitalize private investment in infrastructure. Similarly in Indonesia, the establishment of the PDF followed the relocation of the PPP mandate within the government and the development of a new PPP enabling framework.

India's IIPDF: Contemporaneous PPP Interventions

The Government of India (GoI) implemented a series of interventions in 2006 to support the strengthening of the PPP framework. This included the establishment of a PPP Cell and a PPP Appraisal Committee. The establishment of India's PDF, the India Infrastructure Project Development Fund (IIPDF) in 2007 was designed to further incentivize implementing agencies, particularly those with less

PPP experience, to build their PPP pipelines.

The government also created funding and financing vehicles (Viability Gap Fund (VGF) and India Infrastructure Finance Company Limited (IIFCL), respectively) alongside the IIPDF. These combined interventions led to a quadrupling in the value of private investment in PPPs from 2006 to 2012.

The establishment of PDFs is frequently a part of reform programs aimed at catalyzing PPPs.¹⁶ PDFs are frequently established in concert with complementary actions that improve the PPP enabling environment, and in particular the identification or prioritization of PPP projects.¹⁷ This approach recognizes that systematic project preparation support is necessary to underpin PPP program objectives, and that PDFs may be useful tools to encourage such support, particularly where a country is focused on increasing the volume of PPPs it delivers. In addition, this approach signals political commitment to the PPP program, which may in turn increase the PPP program's attractiveness to private sector actors.

PDFs are also frequently established alongside government support mechanisms.¹⁸ As part of broader PPP reforms, Kenya developed multiple funding and financing instruments to support PPPs. The PDF Window is one part of a larger fund (the Kenya Project Facilitation Fund (PFF)), which also includes a VGF. In Mexico, the National Infrastructure Fund (FONADIN) had significant funding for non-recoverable grants to support project viability and to provide project financing support, in addition to its project preparation support. In these cases, an investment in improved project preparation ensured that government funding and financing tools are well utilized. Figure 4, below, depicts government support mechanisms which have been established alongside PDFs.

Figure 5: Government Support Mechanisms:

Project Viability Support	Credit Support	Financing Instruments
e.g., VGFs, which can fund project investment requirements, reducing the required private investment	e.g., guarantee funds, which support the provision of guarantees that may enhance creditworthiness	e.g., local DFIs, which can provide financing instruments otherwise unavailable in local financial markets

Key Takeaways

- PDFs are generally not stand-alone interventions. They are typically established as a part of broader PPP framework reforms to catalyze the PPP program, often after the development of at least foundational PPP experience.
- PDFs are also often linked to the development of other government support mechanisms, that in combination aim to facilitate the preparation and implementation of viable PPP projects.

How Have PDFs Contributed to PPP Program Success?

Experience to date demonstrates that PDFs can contribute to PPP program success. Although few PDFs have been operational over a long timeframe, the experience that is available demonstrates that PDFs can be important mechanisms to allocate funding to PPP project preparation and support PPP projects and PPP program growth. In particular:

- **PDFs have directed significant funding to the preparation of PPP projects.** This has enabled the preparation of a significant number of projects. For example, Mexico's FONADIN has supported more

than 76 projects¹⁹ with total project preparation costs of US\$413 million. The Philippines' PDMF support of 45 projects⁵³ has coincided with a large increase in the PPP pipeline, growing from 10 projects (valued at US\$3 billion) to 19 projects (valued at US\$25 billion). And South Africa's PDF supported more than 70 projects, including a wide range of national, provincial, and municipal projects.

- **Support by PDFs appears to contribute strongly to PPP projects reaching financial close and implementation.** In a number of the countries reviewed for this Primer, it is clear that a significant percentage of closed projects have benefitted from PDF support, suggesting that PDF support has been important in improving the number of successfully implemented transactions. In Indonesia, as of mid-2022, nearly half of the PPP projects that have reached successful closure have received PDF support. In addition, many of those that were not supported by the PDF received project preparation support from the Indonesia Guarantee Fund (IGF). In the Philippines, after four years of PDF operation, 75 percent of closed projects had received PDMF support. By 2019, 11 PDF projects had reached financial close, out of the 19 awarded PPP projects since 2010.²⁰

South Africa's PDF: Promoting PPPs

South Africa's PDF was established in 2004, alongside its PPP program. It was designed to encourage implementing agencies to consider PPPs and to overcome budget challenges related to insufficient funds or multi-year requirements and was unique in that it had a fixed lifespan of 10 years.

The PDF is seen as an important driver of the cultural shift towards the use of PPPs in South Africa. Although the need for project preparation funding post-PDF remains, the PDF's engagement in more than 70 projects, including those that were not successfully implemented, served to build PPP capacity and relationships between implementing agencies and the PPP unit. These in turn generated more interest in PPPs, creating a virtuous cycle supporting PPP program growth.

PDFs have also contributed to broader PPP program growth. In addition to supporting increased private investment in infrastructure, PDFs have enabled implementing agencies to consider PPPs where they might not have otherwise. In doing so, implementing agencies have gained a critical understanding of the PPP project development process as well as the characteristics of projects that can be successfully delivered as a PPP. This increased awareness and understanding of PPPs can drive a cultural shift that supports longer-term PPP program growth: once familiar with PPPs, implementing agencies are better placed to identify and deliver PPP projects in the future. For example, in India, implementing agencies that have gained PPP experience budget for and carry out necessary project preparation work without IIPDF funding or support. In the Philippines, the PDMF not only enhanced the government's capacity to develop a robust pipeline of PPP projects but also raised the quality and credibility of PPP projects being tendered. This led to an increase in participation from international investors/bidders for tenders for PDMF-supported projects.

However, PDFs have not achieved results in a vacuum. The successful examples noted above are all linked to a broad political commitment to the development and implementation of PPPs, which is often expressed through a wider PPP reform program, as noted in this chapter. Although PDFs can clearly support the development and delivery of PPP projects, they must not be viewed as a panacea.

Key Takeaways

- Experience shows that PDFs can support the allocation of significant funding to PPP project preparation and contribute strongly to PPP projects reaching financial close and implementation.
 - Beyond supporting specific projects, PDFs can also contribute strongly to broader PPP program growth through supporting the building of critical PPP capacity within government and driving private sector confidence in the PPP program
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Footnote 11: GIH. 2019. [Leading Practices in Governmental Processes Facilitating Infrastructure Project Preparation.](#)

Footnote 12: See Chapter 6.3 for a more detailed discussion of the role of PPP units in PDF management.

Footnote 13: See Chapter 3.3 for a more detailed discussion of the role of PPP units in PDF management.

Footnote 14: ADB. 2016. A Project Development Fund for Mongolia's Public-Private Partnerships.

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