Structure - Primer on Project Development Funds

Download Chatbot

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.

A PDF's structure is a key determinant of its effectiveness and ability to ensure the quality and efficiency of project preparation. However, PDFs function within and alongside the broader PPP enabling environment, [1] and rely on it to: i) identify projects that are candidates for PPPs and may require PDF support; (ii) define the PPP project life cycle and the necessary approvals required at various stages within this cycle; and iii) make funding and financing available to enable the implementation of projects which have received PDF support. As a result, the optimal structure for a PDF will vary depending on the environment within which it is being established. The figure below demonstrates how a PDF typically fits within a country's PPP framework and PPP project cycle process.

Figure 6: PPP Project Cycle and PDF Funding

[Insert figure]

This chapter lays out the key determinants of a PDF's structure, covering:

- How and where a PDF is established;
- High-level decision-making processes; and
- The institutional models used to support its operation.

Establishment and Legal Structure

Establishing Instruments

Most PDFs are established as a part of a country's PPP framework. Given the mandate of PDFs and their role in supporting the PPP program, most PDFs are enabled within PPP legislation. For example, Ghana and Kenya both enabled the establishment of PDFs under their PPP Acts, in 2020 and 2013, respectively, with the legislation providing basic information on the PDF's scope and objective. [2] In Kenya, regulations were adopted in 2017 to provide further clarity on the operations of the PFF, including the PDF Window. Similarly to Kenya, Indonesia built on general PPP framework enabling provisions with the issuance of specific PDF regulation. Other examples include the Philippines, where the PMDF was established as a part of a broader executive order that reshaped the PPP program and related institutions.

There are exceptions, however, and some PDFs are established independently from the PPP framework. Mexico's FONADIN was established as a presidential decree which transferred assets to a trust fund. However, FONADIN has a much broader scope than supporting project preparation activities. It also plays a key role as an investor in infrastructure projects, through the provision of financing through grants, loans and other instruments. With respect to PDFs focused entirely on PPP project preparation, only India's IIPDF was not enabled or established under PPP-specific legislation, because India does not have a PPP law. Instead, a

budgetary resolution established the IIPDF, and guidance documentation was issued to define the IIPDF's scope and operations.

Legal Structure

A PDF's legal structure is typically driven by the need to enable a PDF to access and manage funding for PPP advisory services. PDFs are, in many cases, special purpose bank accounts, operated by governments to disburse funds for project preparation. The legal structure of a PDF is therefore often designed around enabling the operation of a bank account to effectively provide PPP project preparation support in line with PPP framework requirements.[3] As discussed in Chapter 2, the budget cycle and other financial management challenges can negatively impact the allocation of funds to PPP project preparation support. To effectively address these challenges, PDFs often need the functionality to enable them to:

- Hold allocated funding over a longer timeframe than a typical budget cycle;
- Make conditional commitments to undertake later stage project preparation work;
- Efficiently procure and retain high-quality advisors; and
- Receive and retain fund reflows, to the extent that revolving features[4] are enabled.

The precise steps required to achieve the necessary functionality vary based on both the specific needs of the PDF and the financial management policies of the country in which it operates. As a result, PDFs are established in an array of different forms. [5]

PDFs have been established through the creation of separate legal entities. A separate legal entity can generally enable the range of functionality necessary for PDF operation. In some cases these entities are specifically created for the purposes of the PDF. For example, in South Africa the PDF was established as a single-function trading entity, and Mexico's FONADIN was created as a trust fund to be managed by a trustee. Elsewhere, governments have used existing entities to hold PDF funds. In the Philippines, the PPP Center was established as an independent agency attached to the National Economic and Development Authority (NEDA). By establishing the PDMF within the PPP Center, PDMF funds were held in an entity which already possessed the ability to hold and receive funding outside of the budget cycle.

However, the establishment of separate legal entities is not a requirement and may not necessarily enable a PDF to operate as a PPP policy tool. Where the creation of a separate legal entity may not be politically palatable or may entail administrative costs which are burdensome, different approaches have proven workable. For example, in Indonesia, the PDF operates through annual budgetary allocations without the functionalities noted above. It is also worth noting that other reasons that may drive the establishment of funds as separate legal entities do not necessarily apply to PDFs. For example, other funds which are used by governments to support the implementation of PPPs, including VGFs, guarantee funds, and lending funds are established as separate legal entities to enable them to manage their own balance sheets and reduce political pressure on investment decisions.[6] However, the objectives of PDFs and PPP programs are often aligned, reducing the need for institutional independence. In fact, in at least one case the establishment of a PDF with a high degree of independence has been noted as negatively impacting the PDF's ability to promote or enforce government policy and therefore its influence. [7]

Location

Regardless of legal structure, PDFs are not generally stand-alone institutions, but are instead located within an existing institution. PDFs are often seen as tools that are accessed through a host institution, which may provide strategic guidance and governance as well as operational support. The PDF host, or its location, is of particular importance, because it can strongly influence a PDF's institutional relationships, administrative arrangements and objectives.[8] A PDF's host is often selected based on the institutions which possess relevant expertise or deliver complementary functions. This can drive efficiencies and improve coordination across different stages of the project development process. However, inherent in any choice of host institution are

potential conflicts of interest which must be carefully considered, because hosts may have a particular perspective that can influence decisions on both PDF project selection and project preparation.[9]

PDFs are typically located in the ministry of finance (MoF) or other central agency responsible for the PPP program. Because of their typical establishment under the PPP framework, PDFs are generally located within the central agency responsible for the PPP program, which also commonly houses the PPP unit. In many cases this is in the MoF, as in Indonesia, India, Ghana, Kenya, and South Africa. [10] Where the responsibility for PPP development sits outside the MoF, the PDF often does as well. For example, the PPP Center and PDMF in the Philippines are situated under the National Economic and Development Authority (NEDA).

However, other locations are also relevant, particularly where PDF users may not be dominated by national entities. For example, where considerable demand is expected from sub-national entities, a PDF located within the MoF may not be the best choice, particularly if there is another entity dedicated to subnational/municipal issues. For example, the Municipal Infrastructure Investment Unit's Project Preparation Unit in South Africa, which has provided project development support for municipal actors, was located under the oversight of the Department of Provincial and Local Government. Its location is among the factors that has enabled it to provide assistance to more than 230 projects over its lifetime. [11]

Key Takeaways

- PDFs are institutional mechanisms that support the development of a PPP program. They are therefore often established under the PPP legal and regulatory framework.
- A PDF's legal form is generally driven by the functionality required to enable the PDF to manage funds effectively, and is therefore highly dependent on the jurisdiction in which it is established.
- Regardless of legal form, PDFs are generally established within an existing institution, most often the central institution responsible for the PPP program and PPP unit.

Governance and Decision-Making

Governing Bodies

PDFs are typically governed by an independent committee or board. These committees play a strategic role in overseeing the performance of the PDF. They are not directly involved in project implementation, but provide higher-level stakeholder input into the PDF's operations and ensure the PDF delivers on its objectives. [12] Typically the responsibilities of the committee will include: determining funding requirements and requesting budget allocations or other sources of financing; defining funding eligibility and project evaluation criteria; approving funding applications and authorizing funding allocations; approving operational and management procedures, including reporting requirements; overseeing financial management, including preparation of annual financial statements; and approving all other day-to-day processes within the PDF. [13]

The composition of the PDF committee is often closely aligned with broader PPP governance structures. As with other aspects of a PDF's design, its governance framework is generally built on the PPP framework in a country, and in particular the governance of the PPP project cycle. In some cases, such as in Kenya and Ghana, their PPP Committees' responsibilities under the respective PPP acts include oversight of the PDFs. This provides the PPP Committees with dual responsibility for both approval of PDF funding and approval of PPP projects at various stages in the PPP project cycle. Where PDF committees are established as distinct from PPP committees, their composition is generally similar, as in India, the Philippines, and South Africa. [14] In these cases, PDF committees often have a narrower composition than those tasked with PPP project approvals, given the narrower focus on PPP project preparation funding support. As an example, in India, the

IIPDF committee is composed of a sub-set of PPP Appraisal Committee members directly involved in project preparation, i.e., the MoF, National Institution for Transforming India (NITI Aayog) (planning), and the Private Investment Unit (PIU) (PPP unit) staff.

In rare cases, the composition of the PDF committee is less closely aligned with PPP governance structures. For example, Mexico's FONADIN includes representation from institutions focused on PPPs, such as director of the Public Credit Unit and Investment Unit in the Secretary of Finance and Public Credit (SHCP), but also incorporates a broader range of stakeholders on its Sub-Committee on Evaluation and Financing. These include government stakeholders from the MoF and Ministry of Public Administration, but also representatives from the Mexico national development bank (BANOBRAS) and the private sector. This broader representation is reflective of the wide range of decisions made by this committee, which includes project grants and financing, as well as project preparation funding approvals.

Implications for PPP Project Development

Similarities between PDF and PPP governance structures may support coordination and leverage scarce PPP capacity. This can help to ensure alignment between PPP program policy and project development initiatives and may increase the efficiency of decision-making. In addition, creating genuine separation across functions within often thinly staffed PPP institutions may not be realistic. In Kenya, where the PPP Committee oversees the PDF, some efforts have been made to separate the delivery of PPP Committee responsibilities as they pertain to the PDF and the PPP project cycle, for example by scheduling separate committee meetings to handle PDF business. This enables close alignment between PDF funding and PPP program objectives, while ensuring adherence to public financial management and audit accountability framework obligations.

The alignment of PDF governance with that of other government support mechanisms may also facilitate the implementation of PPP projects. In a number of countries, overlap between PDF governance and PPP governance does not only cover the PPP project cycle, but also other government support mechanisms designed to support PPP project funding and financing. This is most clearly evident with mechanisms that support project viability such as VGFs or guarantee funds. In India, decision-making committees for PDF and VGF funding approvals have the same composition, and in Kenya, the PDF Window and VGF Window both sit under the Project Facilitation Fund (PFF), which has one governance committee. In Indonesia, the MoF coordinates requests for PDF, VGF, and Indonesia Guarantee Fund (IGF) support to help ensure that necessary capacity is brought to bear in a timely fashion across the PPP project cycle.

However, there is limited overlap in the governance structures of PDFs and financing institutions, and little evidence of any coordination with respect to decision-making. In many cases, this may be the result of the independent governance structures commonly used for financing institutions to insulate them from political interference in investment decisions. For example, although Ghana's MoF is involved in providing policy guidance to the Ghana Infrastructure Investment Fund (GIIF), the MoF is not involved in investment decisions, and GIIF is managed by a board of private sector individuals. This may also be a result of the fact that financing institutions engage at a later stage of the PPP project cycle. Even though India's IIFCL is managed directly by the MoF, there does not seem to have been any significant coordination between IIFCL and IIPDF in terms of project development activities.

Key Takeaways

- Governance of PDFs is almost always managed through government approval committees.
- The governance of PDFs is generally aligned with the governance of the PPP project cycle, reflecting an alignment of objectives between the PDF and PPP program.
- The alignment of PDF governance with other government support mechanisms may facilitate the project development process, particularly with respect to VGFs. However, the integration of PDFs with government financing support is less common.

Administration Models

PDFs are generally managed by existing institutions. The core activities of a PDF revolve narrowly around the allocation and administration of funding for project preparation activities, and are referenced as requiring light management structures. [15] However, many PDFs go beyond simply paying out funds to also addressing capacity gaps in the project preparation process. [16] As a result, the typical functions of a PDF may go beyond assessment of funding applications and fund disbursement, and may also involve early engagement with implementing agencies, advisor procurement and oversight, and broader project preparation support. The extent to which a PDF engages in these activities varies considerably, [17] largely due to the potential overlap with PPP unit responsibilities. However, where these activities are the PDF's responsibility, the PDF will require specialized capacity that is not widely available, particularly in nascent PPP markets. Consequently, even though the precise model differs, most PDFs are managed in a manner which seeks to leverage the capacity of larger, existing institutions.

The most common model for the administration of PDFs is the delivery of PDF functions directly through PPP units. [18] There is close alignment between the PDF's role as described above and with the traditional role of PPP units. Under this model, the PDF is a project preparation support tool that the PPP unit can offer to implementing agencies. In fact, in a number of countries there is no separation between the PDF and the PPP unit, and the delivery of PDF functions is a supplementary task carried out by PPP unit staff. This is the case in Ghana, India, Kenya, and South Africa. In the Philippines, although the PDMF sits within the PPP Center, it is managed by a separate department of the PPP Center, with dedicated staffing.

This model has a number of benefits including:

- Leveraging scarce capacity and existing relationships. The success of a PDF depends on, among other factors, having sufficiently skilled personnel that can contribute to the delivery of high quality project preparation support.[19] However, attracting staff can often be challenging because PDFs lack the operational scale to require a broad range of full-time technical staff.[20] Instead, making use of existing capacity within PPP units, such as financial, economic, legal, and sectoral expertise, can be an efficient way of leveraging scarce capacity within a country. In addition to capacity, PDFs are also able to leverage existing relationships developed between PPP units and implementing agencies.
- Facilitating a "one-stop shop" for PPP program tools and support. As noted above, there are several examples where PPP units are also heavily involved in managing the use of other government support mechanisms to ensure the viability of PPP projects. This helps to create a onestop shop model across the PPP project cycle that may be easier for implementing agencies to navigate and access. For example, in Indonesia the PDF is a separate directorate under the PPP Unit, within the MoF. The PPP Unit also facilitates access to the VGF and the IGF, which enables the PPP Unit to liaise across institutions to streamline the process for implementing agencies. This approach also serves to further leverage scarce capacity, where combining PDF functions with other support tools, VGFs in particular, may help the PPP unit attract more qualified staff.[21]
- Traction and engagement. Locating the PDF within a PPP unit also has benefits for PPP units. In particular, having the incentive of funding to offer alongside the provision of technical support can encourage implementing agencies to work collaboratively with the PPP unit throughout the PPP

project cycle. In the Philippines, PDMF funding is seen as central to the ability of the PPP Center to deliver on its mandate. [22] In Indonesia and Kenya, the development of PDFs allowed the PPP units to better promote the use of PPPs and play a larger role in their development.

Other models for the delivery of PDF operations typically rely on outsourcing some or all PDF functions, most often to a local development finance institution (DFI). Different country contexts sometimes require different administration models for the delivery of PDF operations, which do not rely exclusively on PPP units. Typically, these models involve the outsourcing of PDF functions, often to a local DFI or other government institution. Although the precise reasons behind the development of these models vary considerably, the desire to leverage local DFI capacity is a common driver:

- **Indonesia**: The PPP Unit retains a key role in PDF administration because it is responsible for reviewing applications for support and manages PDF funds at the level of the PDF facility. However, functions related to the administration of the PDF's support to individual projects, such as retaining transaction advisors and assisting implementing agencies to oversee advisors throughout the project preparation process, were outsourced to a "facility implementer."
- **Mexico**: Although, FONADIN's governance sits with key government stakeholders, similar to many other PDFs, it is fully administered by BANOBRAS, the national development bank. Specifically, FONADIN is entirely managed by BANOBRAS staff, albeit staff housed in a separate division from other BANOBRAS functions. This arrangement is largely driven by FONADIN's broader mandate as a project funder and financier, which aligns with the financing expertise of BANOBRAS. In addition, Mexico does not have a PPP unit that engages in day-to-day support in the development of PPP projects.

Indonesia's PDF: The Role of the Facility Implementer

The design of Indonesia's PDF was driven by the need to enable the retention of international advisors. The PPP unit could not effectively do so as a result of public procurement requirements. In addition, at the time of its establishment, PPP capacity was limited. The solution was to outsource certain administration functions to a "facility implementer", or a separate institution with the requisite capacity and flexibility.

Initially, PT SMI, an MoF-owned non-bank financial institution, was the sole facility implementer. It was not subject to public procurement rules and could inject additional capacity to support project preparation. As PPP experience in Indonesia has grown, the PDF administration model has also evolved, with the PPP unit taking several steps to increase effectiveness, including:

- appointing a second facility implementer, the IGF, to support workload; and
- increasing its involvement in the empanelment of transaction advisors by the facility implementers.

The involvement of a local DFI can create a conflict of interest between its role as both a preparer of projects and a financier, which must be carefully managed. Although the perspective of a financier is often useful to help ensure project bankability, it can also bias project selection away from policy objectives. Projects that are most likely to create future financing opportunities may be favored. The DFI may also influence project preparation decisions that might make the project more attractive to financiers. Careful management of this risk is necessary to reduce the likelihood of unintended consequences for a PPP program. In Indonesia and Mexico, it is notable that PDF governance arrangements rely on the central government, rather than the relevant DFI. This helps to ensure that the PDF is used to support projects consistent with government policy

objectives. Other controls are also necessary to mitigate potential conflict of interest risks during project preparation. For example, in Brazil, the National Development Bank (BNDES)'s project structuring company, EBP, is separated by strict Chinese walls from its project finance divisions, so the sharing of privileged information is avoided. Moreover, BNDES has a technical agreement with EBP to ensure that the public interest is taken into account. [23]

Key Takeaways

- PDFs are generally administered by existing institutions, typically by PPP units. This approach can provide a variety of benefits, including better leveraging scarce capacity, supporting coordination across PPP support tools, and increasing traction with implementing agencies.
- The outsourcing of some, or all, PDF functions, most often to local DFIs, is also a commonly used PDF administration model, particularly where local DFIs have PPP capacity. However, care should be taken to manage potential conflict of interest issues arising from a single entity with responsibility for both the preparation and financing of projects.

Footnote 1: GIH. 2019. Leading Practices in Governmental Processes Facilitating Infrastructure Project Preparation.

Footnote 2: In both cases the PDFs were not established until several years later.

Footnote 3: ADB (Asian Development Bank). 2016. A Project Development Fund for Mongolia's Public-Private Partnerships.

Footnote 4: Revolving features are discussed in detail in Chapter 5.

Footnote 5: GIH. 2019. Leading Practices in Governmental Processes Facilitating Infrastructure Project Preparation.

Footnote 6: ADB. 2016. PPP Funds: Observations from International Experience; and WBG. 2020. Global Review of Public Infrastructure Funds.

Footnote 7: WBG. 2010. Review of Pakistan's Infrastructure Project Development Facility.

Footnote 8: G20 Working Group. 2014. Assessment of the Effectiveness of Project Preparation Facilities in Asia.

Footnote 9: G20 Working Group. 2014. Assessment of the Effectiveness of Project Preparation Facilities in Asia; and GIH. 2019. Leading Practices in Governmental Processes Facilitating Infrastructure Project Preparation.

Footnote 10: At the time of the establishment of South Africa's PDF, its PPP unit was located under the National Treasury.

Footnote 11: USAID. 2006. Municipal Infrastructure Investment Unit (MIIU) Final Completion Report.

Footnote 12: ADB. 2016. A Project Development Fund for Mongolia's Public-Private Partnerships.

Footnote 13: GIH. 2019. Leading Practices in Governmental Processes Facilitating Infrastructure Project Preparation.

Footnote 14: Although Indonesia's PDF is not governed by a committee, the role of the Ministry of Finance in allocating PDF funding reflects alignment with the PPP framework more generally.

Footnote 15: ADB. 2016. A Project Development Fund for Mongolia's Public-Private Partnerships.

Footnote 16: GIH. 2019. Leading Practices in Governmental Processes Facilitating Infrastructure Project Preparation.

Footnote 17: A deeper discussion of the role of PDFs in advisor procurement and generating demand for PDF support is included in Chapter 7.

Footnote 18: GIH. 2019. Leading Practices in Governmental Processes Facilitating Infrastructure Project Preparation.

Footnote 19: ADB. 2016. A Project Development Fund for Mongolia's Public-Private Partnerships.

Footnote 20: 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 21: ADB. 2016. PPP Funds: Observations from International Experience.

Footnote 22: GIH. 2019. Leading Practices in Governmental Processes Facilitating Infrastructure Project Preparation.

Footnote 23: WEF. 2015. A Principled Approach to Infrastructure Project Preparation Facilities.

Disclaimer: *The resources on this site is usually managed by third party websites. The World Bank does not take responsibility for the accuracy, completeness, or quality of the information provided, or for any broken links or moved resources. Any changes in the underlying website or link may result in changes to the analysis and recommendations set forth on the* Public-Private Partnership Resource Center. *The inclusion of documents on this website should not be construed as either a commitment to provide financing or an endorsement by the World Bank of the quality of the document or project. If you have any comments on any of the links provided on the* Public-Private Partnership Resource Center, *please get in touch here*