Public-Private Partnership Units

Lessons for their Design and Use in Infrastructure

eassd
sustainable development department in east asia & pacific

THE WORLD BANK

PPIAF
PUBLIC-PRIVATE INFRASTRUCTURE ADVISORY FACILITY

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THE WORLD BANK
1818 H Street N.W.
Washington, D.C. 20433, U.S.A.
Tel: (202) 458-1876
Fax: (202) 522-1557/1560.
Internet: www.worldbank.org
E-mail: feedback@worldbank.org

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Foreword

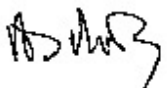
Specialized public-private partnership (PPP) units for facilitating and managing infrastructure investments have existed for years in countries like the UK, the Netherlands, the Czech Republic, Greece, Ireland, and Italy. In 2003, the PPP Alliance, sponsored by the UN Economic Council for Europe, issued good governance guidelines for institutional arrangements established in support of PPPs, including the use of such units. Other high income countries, such as Australia and Canada, also have established government institutions that support PPP development.

Such units have recently begun to proliferate in the developing world. In some cases, PPP functions were simply added to the responsibilities of the centralized privatization units that the World Bank and others strongly encouraged developing countries to create during the first wave of State Owned Enterprise privatizations beginning in the late 1980s. Countries like Zambia and the Côte d'Ivoire were leaders in creating privatization agencies with the necessary powers, independence, resources, and reputation, considered by the Bank and others to be essential in managing successful privatization programs. In other cases, new units have been created to focus only on PPPs. South Africa has created such a unit in its National Treasury.

More recently, consideration of such units in regions like Africa, East Asia, and South Asia has been driven by the increasing recognition of ramping up infrastructure investment. While governments often seem eager to create such units, not everyone in the global PPP market place is convinced that these units add value. Potential private sponsors often argue that the solution to the problem of poorly structured, unsustainable PPP projects is to involve the private sector in such deals as early as possible, to solicit their guidance on what is and is not a sustainable, commercially viable project, before final decisions are taken regarding project structure. Some sponsors argue that the entire project development process be turned over to private companies, that trying to use government units to develop projects just adds another layer of bureaucracy that complicates and slows the process.

The objective of this report is therefore to determine the nature of the contribution made by PPP units to "successful" PPPs, keeping in mind that such units clearly are neither always necessary nor sufficient for the success of PPP programs. With an emphasis on replicability, this effort develops a conceptual framework, and drawing upon real world examples (eight case studies), attempts to illustrate which of the many possible functions of such units correlate with successful PPP programs.

Jyoti Shukla
Manager
Public-Private Infrastructure



Christian Delvoie
Director, Sustainable Development Dept.
East Asia and Pacific Region

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Vice President	James Adams
Sector Director	Christian Delvoie
Team Leader	Apurva Sanghi

Executive Summary

This paper seeks to answer the question of whether specialist public-private partnership (PPP) Units have contributed to successful PPPs, and if so, under what conditions. It concludes that:

- Relatively successful PPP Units directly target specific government failures present in their countries. Clear focus on the role of the Unit in responding to the failures of the existing government institutions is needed to promote a more appropriate institutional solution under the circumstances.
- PPP Units with executive power tend to be more effective than those that are purely advisory. It is important, however, that the power be coupled with a mandate to promote and facilitate good PPPs, or the Unit may simply wield a veto without adding value.
- Ineffective governments tend to have ineffective PPP Units. Where government agencies are corrupt and uncoordinated it will be difficult for a PPP Unit to escape the same fate.
- Without high-level political support for the PPP Program, a PPP Unit will most likely fail.
- In parliamentary systems, effective PPP Units have tended to be attached to treasury departments (Ministries of Finance). This reflects the natural role of the treasury in coordinating government policies and expenditure, its mandate to manage fiscal risk, and the power treasuries derives from holding the purse strings of government. In a nonparliamentary system a PPP Unit may do best if attached to a powerful coordinating agency.

These conclusions are drawn from a qualitative assessment of 8 PPP Units around the world. The PPP Units studied were: Partnerships Victoria (Victoria, Australia), the Parpública Ministry of Finance PPP Unit (Portugal), the Infrastructure Investment Facilitation Center (Bangladesh), the Built Operate Transfer (BOT) Center (Philippines), the National Treasury PPP Unit (South Africa), the Private Infrastructure Management Center and Private Infrastructure Investment Center (Korea), the National Investment Bank of Jamaica, and Partnerships UK and the UK Treasury PPP taskforce.

Context for the Study

The genesis of this paper is the recent enthusiasm among donors and governments for establishing PPP Units—that is, units tasked with implementing or advising on PPPs. Just in the past year, Albania, Egypt, Malawi, Mozambique (Maputo), Nigeria, Tanzania, and Turkey moved to establish PPP Units.

While there may be good reasons for establishing PPP Units in each of these countries, the growing popularity of these institutional structures is reminiscent of a similar institutional trend in the 1990s: establishing independent infrastructure regulatory agencies. During that decade, many policy makers, lenders, donors, and advisors sought to transplant models of successful independent regulation from the UK and parts of the United States to developing countries, with mixed results. Advisors are now becoming aware that good regulation is not about following a one-size-fits-all "best practice" approach, but requires painstaking institutional design, proceeding from a clear understanding of a country's needs, capacity, culture, and administrative traditions. Similarly, the key conclusion of this study is that good implementation of PPP programs—including the usefulness of PPP Units—is not about following a single "best practice" approach.

The World Bank and the Public Private Infrastructure Advisory Facility (PPIAF) have commissioned this study because they hope to speed up the learning process in the design of institutions to implement PPPs. The study aims to help developing country governments and their advisors move beyond assumptions and developed countries' models. The paper provides

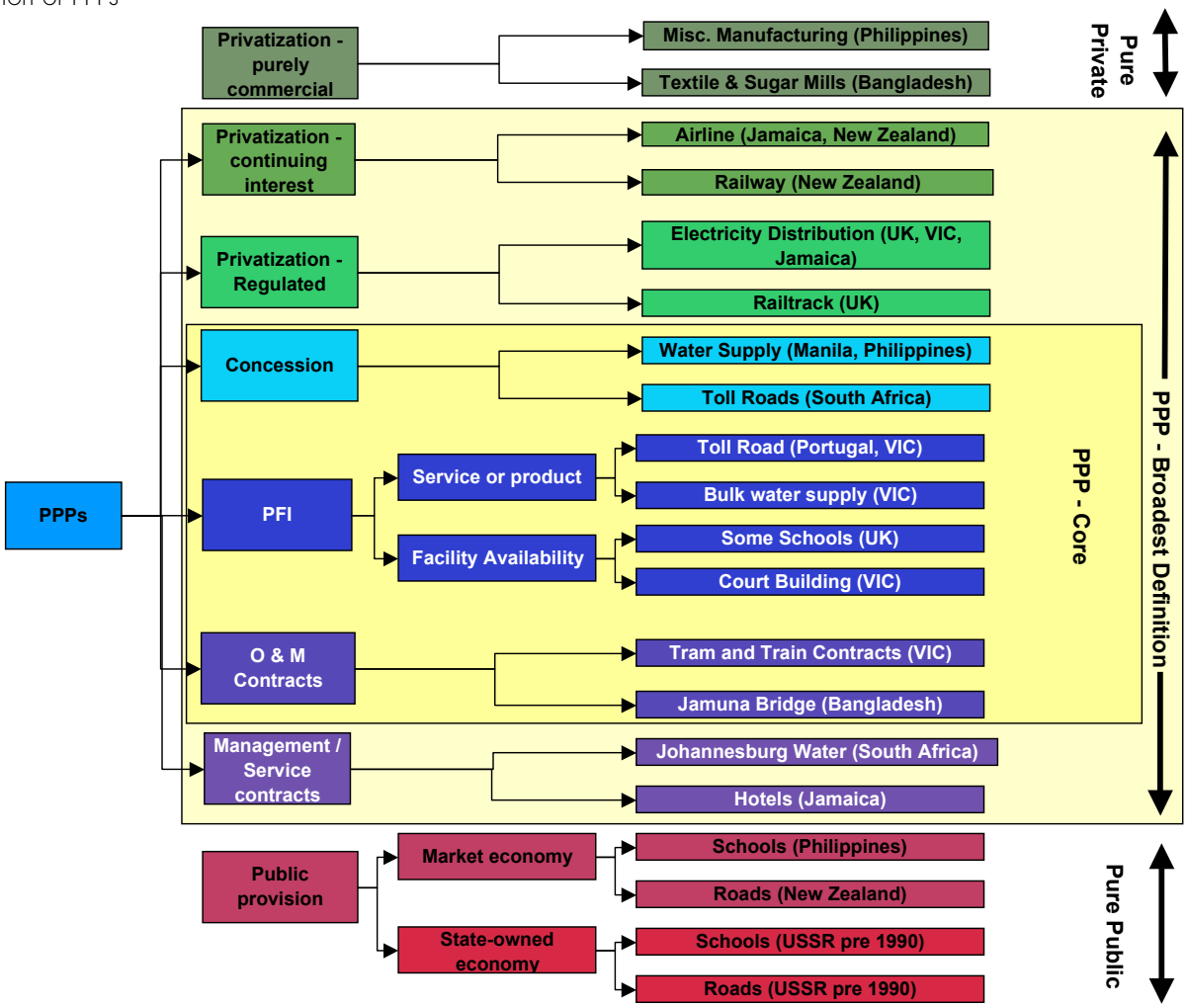
a template for identifying government failures, and considering in each country's specific context whether a PPP Unit would best address those failures.

This paper defines a PPP as an agreement between a government and a private firm under which the private firm delivers an asset, a service, or both, in return for payments contingent to some extent on the long-term quality or other characteristics of outputs delivered. It uses a broad definition of PPP because of the different goals of each country's PPP strategy. As shown in Figure1, this definition may range from management or service contracts to privatization, depending on each country's circumstances and objectives for PPPs.

Similarly, it adopts a fairly inclusive definition of PPP Units, to include any organization designed to:

- Promote or improve PPPs. A PPP Unit may manage the number and quality of PPPs by trying to attract more PPPs, or trying to ensure that the PPPs meet specific quality criteria such as affordability, value-for-money (VfM), and appropriate risk transfer.
- Have a lasting mandate to manage multiple PPP transactions, often in multiple sectors. This distinguishes the PPP Units studied from PPP teams working within a single ministry, or committees assembled to work only on specific transactions.

Figure 1
Definition of PPPs



A successful PPP Unit is defined as "a PPP Unit that contributed to the implementation of a successful PPP program."

The definition of a successful PPP Unit therefore requires a definition of success for a PPP program. A successful public-private partnership is one that:

- Provides the services the government needs
- Offers value for money (VfM) as measured against public service provision (where VfM is measured by the net present value of lifetime costs, including the cost of risk-bearing)
- Complies with general standards of good governance and specific government policy such as:
  - Transparent and competitive procurement
  - Being fiscally prudent
  - Complying with a government's legal and regulatory regimes that apply to the industry in which the PPP will exist.

A successful PPP program is a program that fosters successive PPP transactions that meet the criteria above. These definitions are important for interpreting the lessons from the case studies. For example, while the South African PPP program is generally regarded as successful, it has so far fallen short of the government's expectations for the development of infrastructure PPPs. A broad definition of PPPs draws out the positive lessons from the South African experience, which might have been missed if PPPs were more narrowly defined.

Why Governments Pursue PPPs

Any understanding of the role of PPP Units must be grounded in an understanding of the role that PPPs play in achieving governments' policy objectives.

Many of the governments studied initially used PPPs to attract private finance when they found their own budgets constrained. In such cases, the preference for the use of private finance may have more to do with a government agency's desire to disguise public expenditure and to push it off-budget than with any real risk-transfer, innovation, or efficiency gain. This is the wrong reason for pursuing PPPs.

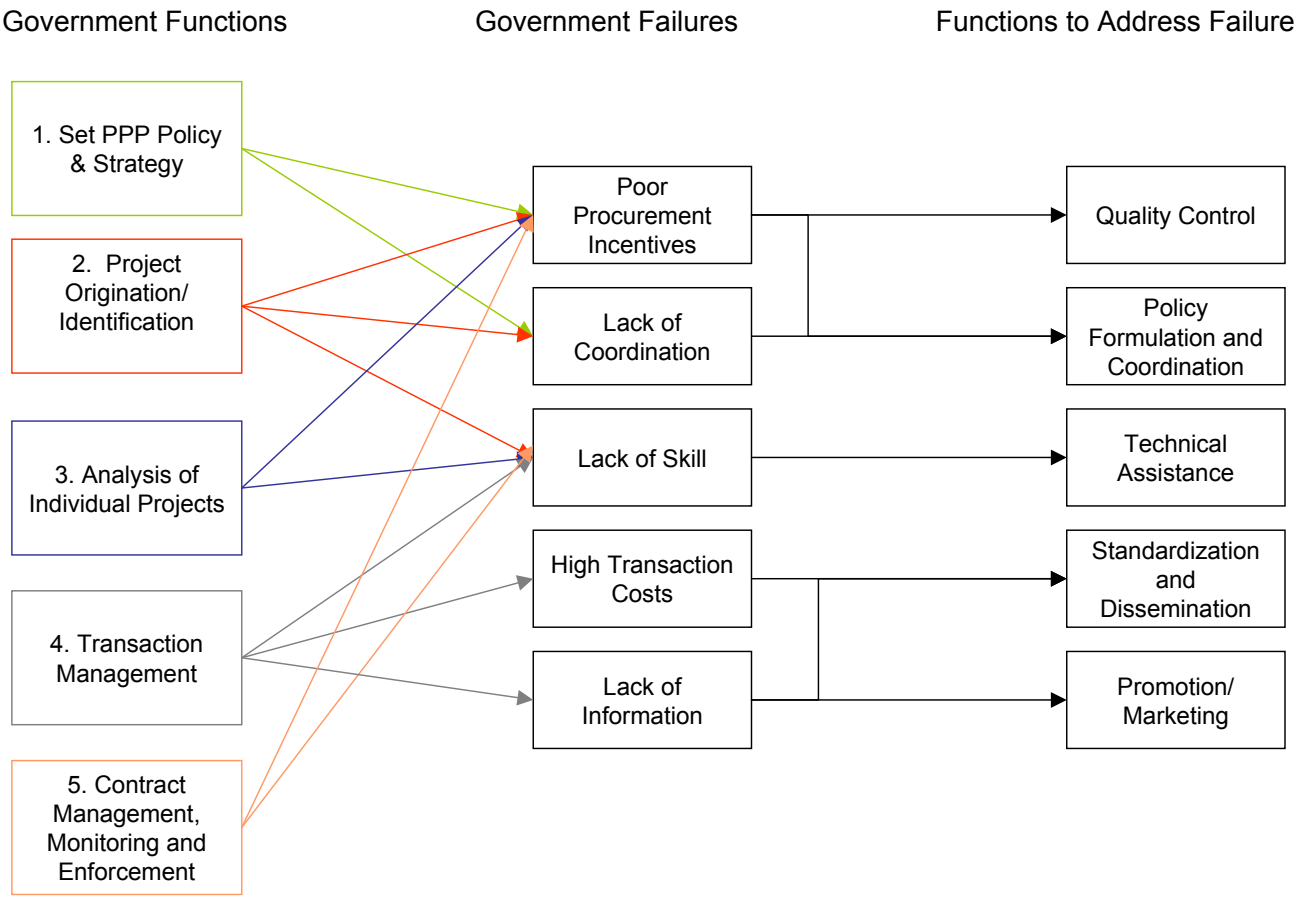
Governments that have a long history of experience in PPPs are increasingly coming to realize that PPPs are useful in more limited circumstances, namely, to achieve net present value for money as measured against services the government could provide on its own, or to achieve optimal risk allocation between the public and private sector partners (rather than maximum risk transfer to the private sector).

Why Governments Create PPP Units

Specialized PPP Units are generally created in response to weaknesses in the existing machinery of government's ability to manage a PPP program effectively. It refers to these weaknesses as "government failures". Governments in different countries will suffer from different institutional failures in PPP procurement. PPP Units therefore need different designs in different countries, so they can address the specific government weaknesses concerned. In other words, PPP units must deliver the right medicine for the disease.

Figure 2 shows the different government functions required to manage a successful PPP program, the government failures associated with each of these functions, and the roles PPP Units can play in helping to correct these failures. This paper tests the hypothesis that a PPP Unit that effectively fulfills all of the functions will be successful. In principle, each of these functions can be performed by line agencies or coordinating agencies (such as Cabinet Offices) or be contracted out, while there are many institutional ways to integrate them without creating a PPP Unit. However, if the government failures are to be addressed through the creation of a specialized organization, then the organization needs to be able to perform these functions. This means it needs to be given the necessary executive authority, rather than simply act as an advisory body.

Figure 2
How PPP Units Address Government PPP-Related Failures



Assessing the Performance of Each PPP Unit

Overall, there is a high positive correlation between the success of a country's PPP program, and PPP Units that perform more of the functions necessary to correct government failure.

Table 1 summarizes whether each case study provides an example of a successful PPP program, and whether the PPP Unit contributed to that success.

Table 1
Summary of Success or Failure of PPP Units

Jurisdiction and Unit	PPP Program Successful?	PPP Unit's Objectives	Met those Objectives?	Set of functions necessary for solving government PPP failure?
Bangladesh, IIFC	**Little success**. Haripur and Megnaghat show that transparent, quality PPPs are possible, but quality has worsened since.	▪ Advise line ministries and other government agencies in identifying and prioritizing potential infrastructure projects for tender, assisting with evaluation, award, negotiation, and implementation of projects. ▪ Promote private sector participation in infrastructure in Bangladesh by working with the private sector and serving as a clearinghouse of expertise on public private partnerships.	No apparent effect on private participation in infrastructure in Bangladesh.	**None to few:** ▪ Technical assistance ▪ Policy formulation, but no authority to implement
Jamaica, NIBJ	**Little success**, given Jamaica's high public debt. PPPs have worsened the situation.	▪ Secure greater efficiency ▪ Reduce fiscal drain ▪ Optimize government's management resources ▪ Secure enhanced access to foreign markets, technology, and capital ▪ Broaden the base of ownership in the society	No, especially not the reduction in fiscal drain.	**None to few**. Managed some transactions, and attempted coordination, but generally ineffective as real power was never effectively delegated
Portugal, Parpública PPP Unit	**Much success.** Portugal has a much greater need than other EU members to do PPPs, and has since corrected problems with its earlier program.	Generally, to help the government to do better job structuring higher-quality PPPs than in the past.	Yes	**Some:** ▪ Policy formulation ▪ Technical assistance ▪ Quality control
South Africa, Treasury PPP Unit	**Much success**, despite some concerns about low deal flow and lack of deals which address South Africa's true infrastructure needs.	Filter out fiscally irresponsible PPPs while creating a structure for PPPs that would reassure private investors despite it being a fine filter.	Yes but with less than the expected impact on infrastructure deals	**Some**: ▪ Technical assistance ▪ Quality control ▪ Policy formulation

continued

Table 1 continued
Summary of Success or Failure of PPP Units

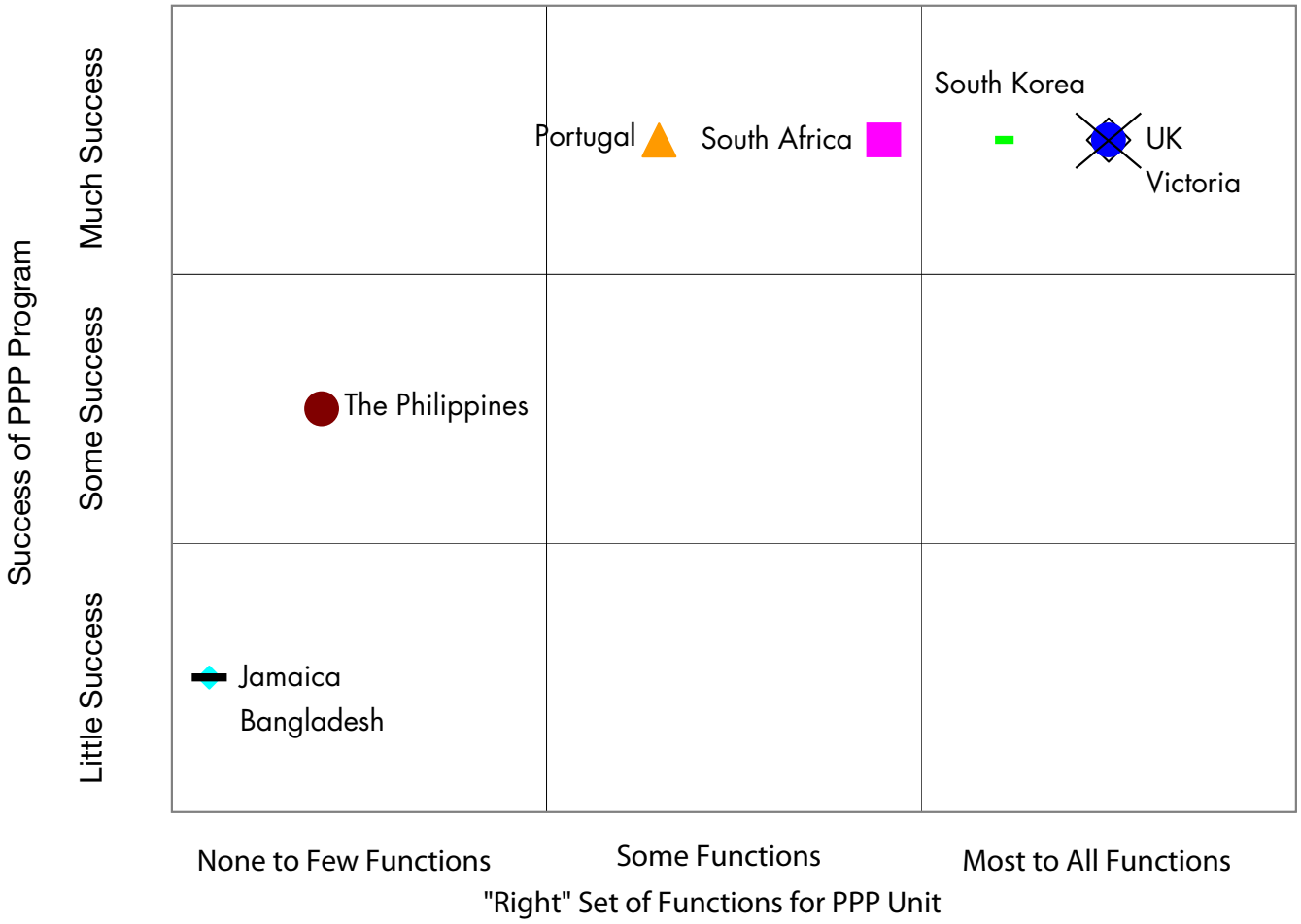
Jurisdiction and Unit	PPP Program Successful?	PPP Unit's Objectives	Met those Objectives?	Set of functions necessary for solving government PPP failure?
Republic of Korea, PIMAC	**Much success**, given Korea's budgetary constraints and infrastructure needs	▪ Provide technical assistance to government agencies and the private sector. The creation of PICKO (PIMAC's predecessor) responded in part to a perceived need that the government agencies were lacking expertise in PPP evaluation and development. ▪ Promote infrastructure projects and educate the private sector about PPP in Korea ▪ Review unsolicited proposals as requested by line agencies ▪ Review feasibility studies and bidding documents ▪ Conduct VfM tests ▪ Assist in proposal evaluation and negotiation of agreements ▪ Assist in formulation of government policy on PPP.	Yes	**Most to all:** ▪ Technical assistance ▪ Quality control ▪ Policy formulation ▪ Promotion/ marketing
The Philippines, BOT Centre	**Some success,** given the country's infrastructure needs, but IPPs of 1990s left significant contingent liabilities.	Technical assistance, PPP promotion/marketing, and monitoring	▪ Yes, but not for all PPPs. ▪ The BOT Centre has done very little monitoring, and on an ad hoc basis.	**Few to none:** BOT Centre was assigned many functions but is really effective only in its technical assistance role
UK, Partnerships UK and Treasury Taskforce	**Much success**	Generally, to improve the quality of PPPs and shift focus away from financing infrastructure to VfM and risk allocation.	Yes	**Most to all:** ▪ Technical assistance ▪ Quality control ▪ Policy formulation ▪ Promotion/marketing
Victoria, Australia, Partnerships Victoria	**Much success**	Generally, to improve the quality of PPPs in infrastructure. Ensuring that PPPs provide for optimal risk transfer, maximize efficiency, and minimize whole life costs.	Yes.	**Most to all:** ▪ Technical assistance ▪ Quality control ▪ Policy formulation ▪ Promotion/marketing

Figure 3 shows the relationship between the range of functions performed by the PPP Unit and the success of the PPP programs. The vertical axis rates the success of each country's PPP program during the time in which the PPP Unit existed, as having "Little Success," "Some Success," or "Much Success." The horizontal axis identifies how many functions the PPP Unit fulfilled, from the list of five functions identified in Section 4 as the right set of functions for a PPP Unit.

Lessons from the Study

The units that were least effective—in the Philippines, Bangladesh, and Jamaica—are located in countries where governance indicators are weak relative to the other countries in the sample[1]. This should be

Figure 3
Correlation of PPP Unit Success with Functions



[1] This paper uses the metrics of government effectiveness from Kauffman, Daniel, Aart Kraay and Massimo Mastruzzi. Governance Matters V: Aggregate and Individual Governance Indicators for 1996-2005. World Bank. 2006.

no surprise. In countries where most government institutions perform poorly, it is likely that any new government institution will perform poorly also. While this may seem obvious at first glance, the significance of this conclusion is that specialized PPP Units may not be able to provide "islands of excellence" within the generally poorly performing governments. It also seems to indicate that relatively less effective governments are less likely to create Units that have the necessary functions for implementation of PPPs.

A more detailed consideration of the experience of the three underperforming PPP Units yields three additional lessons. PPP Units will tend to struggle when:

- Top politicians do not support the PPP program. The less successful PPP Units lacked strong political support and the influence that comes with such support.
- Procurement of infrastructure and capital works is not transparent and competitive. If there is widespread corruption in procurement of infrastructure and capital works, a PPP Unit will not necessarily be able to change the situation. The same factors that would allow corruption to occur in other government organizations may either endanger the integrity of the PPP Unit, or at least ensure that decisions are routed around the unit
- The machinery of government is chronically uncoordinated. PPP programs are ineffective where the PPP Unit is just one of many responsible agencies. If government functions are not well coordinated, a PPP Unit—even one with executive powers—may not be able to stop poor-quality PPPs because the unit may not receive all of the information it needs to make an informed decision, or may be unable to overrule other agencies. Similarly, such a unit may not be effective in promoting PPPs if other agencies are not willing to cede control of 'their' projects. There is a real risk that creating a PPP Unit in these circumstances will increase the coordination problem, rather than reduce it, creating an additional hurdle that PPP transactions must clear.

These observations lead to several general corollary lessons about the design of PPP Units:

- The authority of a PPP Unit must match what the unit is expected to achieve. If the PPP Unit is expected to have a quality control, or quality assurance function, for example, that unit needs some sort of authority that allows it to put a stop to or alter planned PPP agreements it feels are not well designed
- Because of the importance of coordination within the machinery of government, and political support for a PPP Unit, the location of a PPP Unit within government will be one of the most important design characteristics. We believe our results suggest that, at least in a parliamentary system of government, a PPP Unit will be effective if located within a strong Ministry of Finance or treasury.
- In nonparliamentary systems, such as the presidential system of the Philippines or many Latin American countries, the appropriate location and legal form of the PPP Unit are less clear. In a country with a strong planning or policy coordination agency, that agency might make a natural home for a PPP Unit

Accordingly, the first and most important questions about PPP Units, the policy makers should ask and answer before proceeding to detailed questions of design, are whether to have a PPP Unit, and if so, what will be the unit's responsibilities, authority, and location.

Other, more detailed design considerations may indeed influence the success or failure of a PPP Unit, but the determinants of success or failure in our case studies were at such a high level that they obscured the advantages or disadvantages of further finetuning PPP Unit design.

Acronyms

BTL	Build-Transfer-Lease
CIDA	Canadian International Development Agency
CCPSP	Coordinating Council for Private Sector Participation
CCPAP	Coordinating Council of the Philippine Assistance Program
DRSI	Data Resources Systems International
DfID	Department for International Development
DBFO	Design Build Finance Operate
EO	Executive Order
EoIs	expressions of interest
IPP	independent power producer
IDCOL	Infrastructure Development Company Ltd
IDFC	Infrastructure Development Finance Corporation
IIFC	Infrastructure Investment Facilitation Center
ICC	Investment Coordination Committee
JNIC	Jamaica National Investment Corporation
JPS	Jamaica Public Service
JVA	joint venture agreements
KDI	Korea Development Institute
LGUs	Local Government Units
MWSS	Manila's Metropolitan Water Works and Sewerage System
NIBJ	National Investment Bank of Jamaica
NWC	National Water Commission
NAIA	Ninoy Aquino International Airport
O & M	Operation and Maintenance
PV	Partnerships Victoria
PAP	Philippines Assistance Program
BOT	Philippines Built Operate Transfer
PFI	Private Finance Initiative
PICOM	Private Infrastructure Committee
PICKO	Private Investment Center of Korea
PPI	Private Participation in Infrastructure
PDF	Project Development Facility
PIMAC	Public and Private Infrastructure Investment Management Center
PFMA	Public Finance Management Act
PPIAF	Public-Private Infrastructure Advisory Facility
PPP	public-private partnership
RA	Republic Act
RfP	request for proposals
SoPC	Standardization of PFI Contracts
VfM	value-for-money

1 Introduction

This paper seeks to answer the question of how and under what conditions specialist PPP Units contribute to the success of national PPP programs. The paper draws on the case studies of eight PPP Units in both developed and developing countries to draw broader lessons for the usefulness and design of such Units.

Context for the Study

The genesis of this paper is the recent enthusiasm, among donors and governments, for establishing PPP Units—that is, Units tasked with implementing or advising on public-private partnerships (PPPs). Just in the past year, Albania, Egypt, Malawi, Mozambique (Maputo), Nigeria, Tanzania, and Turkey moved to establish PPP Units.

While there may be good reasons for establishing PPP Units in each of these countries, the growing popularity of these institutional structures is reminiscent of a similar institutional trend in the 1990s: establishing independent infrastructure regulatory agencies. During that decade, many policy makers, lenders, donors, and advisors sought to transplant models of successful independent regulation from the UK and parts of the United States to developing countries, with mixed results. Advisors are now becoming aware that good regulation is not about following a one-size-fits-all "best practice" approach, but requires painstaking institutional design, proceeding from a clear understanding of a country's needs, capacity, culture, and administrative traditions.[2]

The World Bank and the Public Private Infrastructure Advisory Facility (PPIAF) have commissioned this study because they hope to speed up the learning process for PPP implementation, particularly on the design of supporting institutions. This study aims to help developing country governments and their advisors move beyond assumptions and developed countries' models. It provides an analytic framework for thinking about how best to tailor institutional design to a country's needs and circumstances, backed up with empirical evidence from the success and failures of PPP Units in a range of developed and developing countries.

Case Study Research

The paper draws conclusions from a qualitative assessment of eight PPP Units around the world. Table 1.1 shows the Units studied in detail. Case studies were selected that:

- Provided a sample with a reasonable geographical mix
- Provided a sample with a mix of countries at different stages of development
- Represented cases that had experienced significant successes or significant failures with PPPs and PPP Units.

The full case studies in are presented Appendix A. Material for the case studies came from:

- A desk review of written material available on each jurisdiction's PPP program and unit.
- Telephone interviews, using a semistructured questionnaire, with individuals who currently work in or who have worked in the PPP Units. In several cases we also interviewed individuals who were intimately familiar with the PPP Units from their work as transaction advisors or lender representatives supporting the creation of the PPP Units.

Table 1.1
PPP Units Studied in Detail

Jurisdiction	PPP Unit Name
Bangladesh	Infrastructure Investment Facilitation Center (IIFC)
Jamaica	National Investment Bank of Jamaica (NIBJ)
Portugal	Parpública Ministry of Finance PPP Unit
South Africa	National Treasury PPP Unit
Republic of Korea	Public and Private Infrastructure Investment Management Center (PIMAC)
The Philippines	Built Operate Transfer Centre (BOT Centre)
UK	Treasury PPP taskforce and Partnerships UK
Victoria, Australia	Partnerships Victoria

In addition to lessons from the countries studied in detail, general lessons from experience with PPPs and PPP Units in a number of other countries were also considered in the analysis.

Overview of the Paper

Section 2 clarifies the scope of the analysis, by defining the terms "PPP" and "PPP Unit." This section also defines what is meant by "success" when talking about the performance of PPP programs and PPP Units.

Section 3 considers why countries use PPPs, summarizing "good" and "bad" reasons for using PPPs. It is important first to understand the design objectives of PPP Units and their resulting functions. In general, this paper expects that inappropriate objectives for PPPs will lead to disappointing PPPs, irrespective of the quality of the PPP Unit. On the other hand, successful PPP Units can play an important role of sifting appropriate and inappropriate PPPs.

Section 4 looks at the reasons why governments create PPP Units, and establishes a taxonomy of relevant government failures. While PPP Units may be established for a number of reasons, the paper identifies the "right" reasons: namely, performing functions that address specific government weaknesses or failures in procuring good PPPs. It is important to emphasize that PPP Units are just one form of institutional fix for responding to government failures. This section considers the circumstances under which a PPP unit is likely to be a more effective response to government failures than the alternatives.

Section 5 tests the hypothesis that there is a relationship between the success of a country's PPP program and the existence of a PPP Unit that directly addresses specific government failures. The evidence appears to indicate that there is indeed a relationship between the functions identified as critical to the success of the PPP Units and the success of the PPP program, suggesting that good theory and good practice converge.

Section 6 concludes with a set of generalized observations as to what works and what does not work in various circumstances, which should guide future design.

Appendix A looks more closely at each of the 8 PPP Units, in order to draw more specific lessons about the successes of the PPP programs, the functions of the PPP Units, and the role those Units played in the success or failure of PPP programs.

2 Definitions

This section defines three terms that underpin the analysis in the rest of the paper:

- The term "PPP" needs to be defined in order to set boundaries for the responsibilities of a PPP Unit, and to differentiate PPPs from other government transactions with the private sector.
- The term "PPP Unit" needs to be defined to explain how organizations were selected for case studies, and to provide a basis for thinking about how such Units fit within the broader machinery of government.
- The meaning of "success," both for a PPP program and for a PPP Unit, needs to be defined in order to later draw lessons about what conditions help to make PPP Units successful.

The goal is not to develop theoretically perfect definitions, but to come up with functional definitions that can be used to analyze the cases studied. The definitions must be narrow enough to make the analysis meaningful, yet broad enough to encompass the wide variation observed between countries. To illustrate why these definitions matter, it is useful to consider the case of South Africa. The South African Treasury PPP Unit is often described as a gold standard for such organizations, and the South African PPP program is regarded as being successful. However, more recently, the South African government itself expressed concern that there has been little investment in large-scale infrastructure PPPs, and that most PPP transactions have been small-scale. If this paper were to define PPPs narrowly in terms of traditional infrastructure transactions, such as toll roads, the features of the South African PPP Unit would be seen to be associated with limited success. On the other hand, a broader definition of PPPs may be more relevant to assessing the design of that Unit.

Definition of PPP

A PPP is an agreement between a government and a private firm under which the private firm delivers an asset, a service, or both, in return for payments. These payments are contingent to some extent on the long-term quality or other characteristics of outputs delivered.

This paper uses a broad definition of PPP because of the different goals of each country's PPP strategy. Many definitions of PPP might exclude privatization, but some countries' programs designed to encourage private sector participation do not place much weight on the distinction between, for example, divestiture and concessions. Both are viewed simply as different ways of introducing private sector participation, and pursued under the same strategy, and by the same body.

The definition of PPP must therefore be broad enough to apply to all countries, but the sectors, size, and risk allocation of transactions it encompasses must be specific to each country or state's PPP strategy. Table 2.1 shows the range of PPPs used in some of the countries we studied. In these countries, many definitions of PPP have been formed for convenience and consistency with existing laws and other private sector participation programs, but not for theoretical precision. Distinctions are made among sectors, transaction size, and degree of private sector participation (design, build, operate, finance, lease, and so forth).

Table 2.1
Examples of Definitions of PPPs

PPP Unit	Definition of PPP
Partnerships Victoria (Australia)	▪ "… applies to the provision of infrastructure and any related ancillary services which involve private investment or financing. The term 'infrastructure' can extend beyond physical assets to encompass major information technology procurements". Examples of "related ancillary service" include building-related services such as maintenance ▪ "… applies to public infrastructure projects when the present value of payments to be made by the Government (and/or by consumers of a service will exceed AUS$10 million during the period of a partnership" ▪ "… does not apply to the general procurement of services by the Government where public infrastructure is not being provided (e.g. professional consulting services and printing services)" ▪ "… applies to all such projects entered into by Government departments, unless a specific Government decision advises that other provisions will apply" ▪ In practice, excludes privatizations and service contracts
Parpública (Portugal)	▪ "public private partnership shall mean the contract or contracts by which private parties… accept the obligation and make their commitment to provide the public partner with efforts to satisfactorily address a collective need, and in which the funding and responsibility for the investment and undertaking are assumed, in whole or part, by the private partners" ▪ Excludes: – public works contracts – rents and leases – public contracts of supply – any public-private partnership involving present value of public payments to the private partners of less than 10 million euros or an investment of less than 25 million euros, excluding from these sums funds obtained from European Community sources – any other contract(s) for the supply of goods or services for a period of time equal to or less than three years that do(es) not involve the automatic assumption of obligations on the part of the public partner coming at the end of the contract period. ▪ Parpública SA does deal with privatizations, but the Finance Ministry PPP Unit within Parpública focuses exclusively on PPPs.

continued

PPP Unit	Definition of PPP
BOT Centre (Philippines)	▪ Projects may include "power plants, highways, ports, airports, canals, dams, hydropower projects, water supply, irrigation, telecommunications, railroads and railways, transport systems, land reclamation projects, industrial estates or townships, housing, government buildings, tourism projects, markets, slaughterhouses, warehouses, solid waste management, information technology networks and database infrastructure, education and health facilities, sewerage, drainage, dredging, and other infrastructure and development projects as may be authorized by the appropriate agency pursuant to this Act ▪ Applies to the following types of contracts: Build-Operate-Transfer, Build and Transfer, Build Own Operate (but with Presidential approval only), Build-Lease-Transfer, Build-Transfer-Operate, Contract-Add-Operate, Develop-Operate-Transfer, Rehabilitate-Operate-Transfer, and Rehabilitate-Own-Operate ▪ Smaller municipal projects (less than 200 million Philippines Pesos) do not require approval at the national level ▪ A separate privatization office deals with divestiture (formerly the Asset Privatization Trust)
National Treasury PPP Unit (South Africa)	▪ "public-private partnership means a commercial transaction between an institution and a private party in terms of which: – the private party either performs an institutional function on behalf of the institution for a specified or indefinite period, or acquires the use of state property for its own commercial purposes for a specified or indefinite period – the private party receives a benefit for performing the function or by utilizing state property, either by way of: (i) compensation from a revenue fund, (ii) charges or fees collected by the private party from users or customers of a service provided to them, or (iii) a combination of such compensation and such charges or fees." ▪ In practice, the Ministry of Public Enterprises handles privatizations (has included Transnet, Eskom, Telekom, and South African Airways). ▪ As of 2003 (Municipal Finance Management Act), Treasury PPP Unit is responsible for approvals Provincial and Municipal PPPs, not just federal.

Sources: Partnerships Victoria Policy 2000 (Victoria), Decreto-Lei 86/2003 (Portugal), Republic Act No. 7718 (Philippines), Treasury Regulation 16 of Public Finance Management Act.

What PPPs Are Not

A PPP lies between the extremes of public and private provision of goods or services. Figure 2.1 shows a range of possible types of agreement between the public and private sector. These agreements differ primarily in terms of the degree of responsibility and risk taken by the public and private sector partners for asset design, construction, operation, management, and capital investment. At each extreme lies:

- Public provision. A government directly delivers an asset or service or both to the population. The government is the full owner of the asset, takes responsibility for financing the investment required to build the asset, and provides the people and resources necessary to manage and operate the asset over time.
- Private Provision. A private firm delivers an asset or service or both in response to market signals. The private firm is the full owner of the asset, takes responsibility for financing the investment required to build the asset, and provides the people and resources necessary to manage and operate the asset over time. The provider collects its revenue entirely from service users.

Public provision is never "purely public," nor is private provision "purely private." In most countries, even when the government wants to be sole financier, owner, and operator of an asset, it will hire private contractors to design and build the facilities. In most such cases, the private sector contractor assumes some risk for delivery of the facility. If construction is delayed by a fault of the contractor, for example, the private contractor will usually have to assume construction costs associated with those delays.

Moreover, even in public provision of services, private contractors are nearly always hired to supply goods and provide services. Most U.S. public schools, for example, purchase supplies from private companies, employ private firms to undertake routine maintenance and repair of school facilities, and may outsource cafeteria staffing to a private agency.

Private provision, moreover, is rarely driven entirely by market signals. The government always has some role, if only tacit, in controlling the range of action of the private firm. The government may exercise this control through formal antitrust laws, or through an implicit regulatory threat that, if a firm is able to exercise monopoly power, the government will step in to curtail that power.

Examples of pure private provision appear at the top of Figure 2.1. Examples of pure public provision appear at the bottom. Despite the "impurities" in public and private provision described above, it is possible to draw rough conceptual boundaries around PPPs. In order to recognize these boundaries, we begin with a core—the most common understanding of PFI—and work outward toward both extremes.

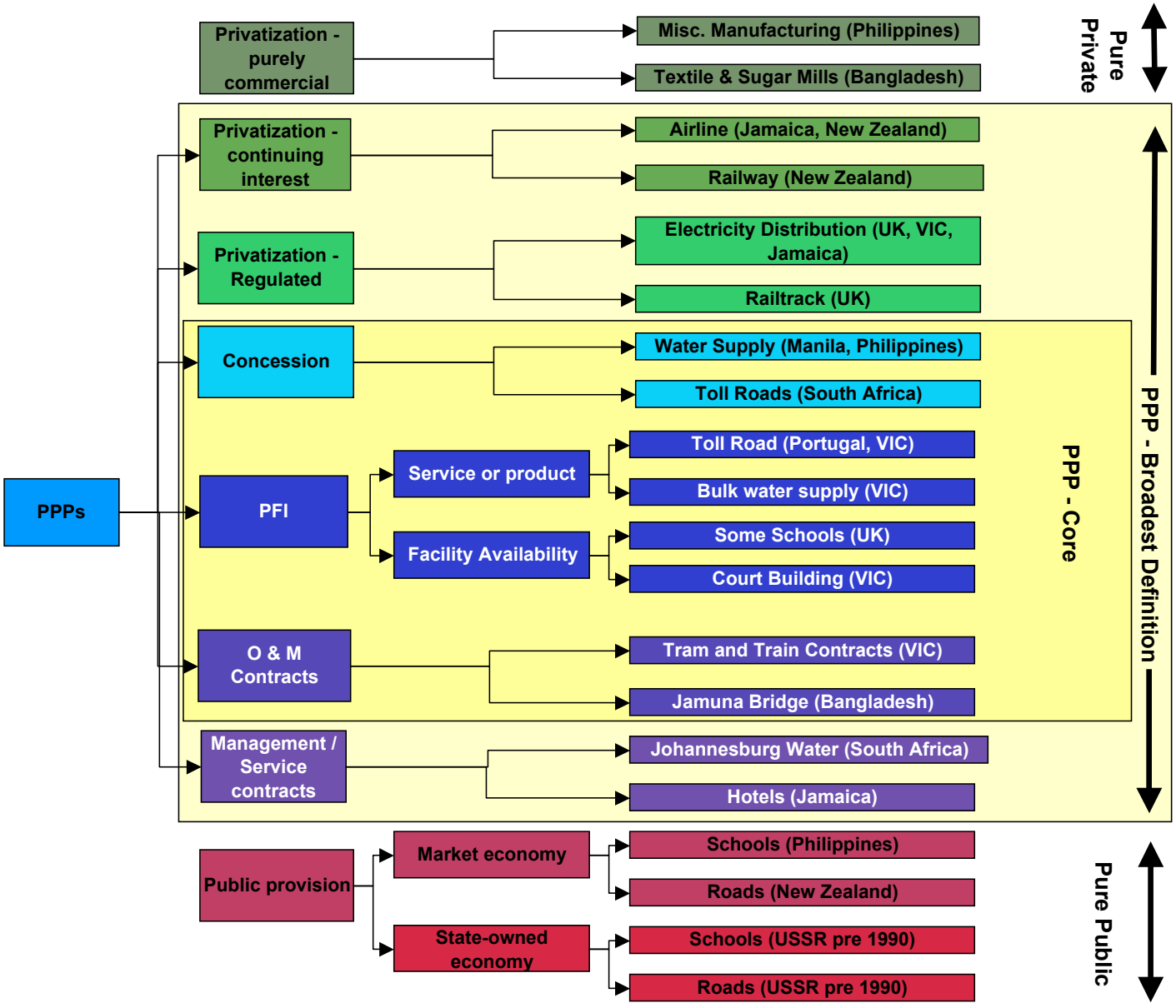
Core PPPs

The UK Private Finance Initiative (PFI) has driven much of the world's thinking about PPPs. Many countries borrowed heavily form the UK's PFI program in shaping their own PPP programs, and common definitions of PPP therefore draw heavily on characteristics of PFI. Box 2.1 describes the scope of PPP as typically understood in the UK's PFI program.

Under this core PPP, the private operator either:

- Agrees to make a facility available for some period of time, and to ensure that, during that

Figure 2.1
A Broad Definition of PPPs



time period the facility meets certain standards defined in the agreement, or

- Agrees to deliver a service over a period of time, and to ensure that the service meets certain standards defined in the agreement.

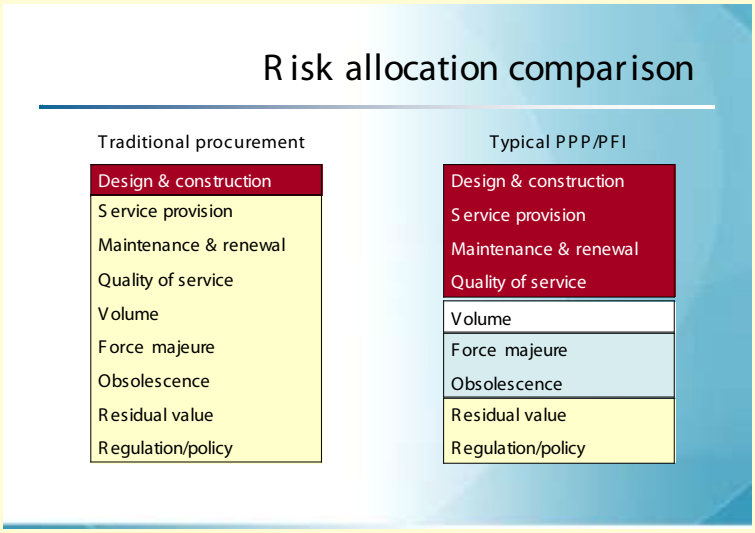
In either case, payment is contingent upon outputs, where the output is making a facility available to a given standard, or delivering a service that meets a given standard. Under the PFI variety of PPP, however, the private firm's payments do not usually depend on whether the government or consumers actually need, want, or use the facility or service.

Box 2.1
Scope of PPP in the UK PFI Program

The UK's PFI program primarily includes Design Build Operate Finance contracts, which typically last 20-30 years. PFI transactions typically have the following characteristics:

- Government transfers responsibility and risk for asset or service to private contractor.
- Private contractor takes on obligations for roughly 20-30 years.
- Private contractor designs, builds, manages, maintains asset, and provides services.
- Lenders fund contractor on limited recourse basis.
- Authority pays "Unitary Charge" for available/acceptable service.

The figure below contrasts public and private responsibilities (or risk allocation) in traditional procurement, and public and private responsibilities in PFI.



Source: Presentation by Ed Farquarson of Partnerships UK, 22 March 2006 at the World Bank.

Moving Toward "Purely Private"

Working upward from the "core" PPP, toward pure private service provision, the private firm takes on increasing responsibility and risk. Within this range, this study considers all of the following to be PPPs:

- Concessions. Under a concession contract, the private partner takes responsibility for operating, financing, and (if new, designing and building the facility. The private firm also takes the risk that, if demand for the facility or service is not as high as forecast, revenues from user fees may not cover all of its costs (which include the cost of debt and equity). The government formally retains ownership of the asset or rights to service delivery.
- Privatization (Heavily Regulated). Moving further from the core, the government cedes its formal ownership claim to the asset and the right to provide service. In many cases, especially where the transaction involves a monopoly service (for example, electricity distribution), the government maintains a firm regulatory hand to prevent the private owner from abusing that monopoly power.

Under privatization, the owner assumes the risk that the asset it has purchased will lose all of its value. However, the owner can also reap the full dividends of owning an asset that is successful and increases in value. With heavily regulated industries, however, price regulation often ensures that the owner neither suffers all of the downside, nor enjoys all of the upside of ownership. Again using the example of electricity distribution, the government cannot afford the political costs of letting the company go bankrupt, nor letting the company reap enormous profits at the expense of customers. Some form of regulation usually ensures that prices are maintained at "reasonable" levels.

- Privatization (Continuing Interest). Some privatizations involve industries that are not controlled by any clear or robust regulatory regime but that remain of "continuing interest" to the government, despite the transfer of ownership. A combination of factual circumstances and local policy determines whether a government has a continuing interest in a privatized company. For example:

– Governments have an interest in making sure their people have access to sufficient food supplies. In most countries, suppliers compete to provide enough food to meet demand at prices the government finds reasonable. However, in countries at risk of famine or with high levels of malnutrition, the government may understandably have a continuing interest in maintaining adequate and affordable food supply. Cape Verde is one country that has considered entering into PPPs for food distribution.

– Jamaica, like many other countries, has shown continued willingness to bail out its privately owned airline during the last decade, despite an abundance of competitive carriers in the region. For Jamaica a flagship airline is a continuing interest.

Only purely private provision lies outside our broadest definition of PPPs at this extreme. In purely private provision, governments will generally be willing to let the market determine whether individual companies succeed or fail.

Moving Toward "Purely Public"

Working downward from the "core" PPP, toward pure public provision of service, the public sector takes on increasing responsibility and risk. Within this range, this study considers all of the following to be PPPs:

- Operation and Maintenance (O&M) Contracts. Under an O&M contract, the private operator takes responsibility for all aspects of operation and maintenance. The operator does not usually take any responsibility for financing any capital investments, but may manage a capital investment fund, and decide in conjunction with the public owner how that fund should be used. A separate entity will have already designed and built the facility (or perhaps the same private firm, but under a separate contract). The O&M contractor usually receives a fixed annual fee and an additional fee tied to the asset's overall performance. With an O&M contract for provision of water and sanitation services, for example, the private contractor might receive a performance bonus for reductions in nonrevenue water, increases in hours of service availability, or improvements in operating profitability. The O&M contract may also include explicit penalties for failure to meet targets
- Management or Service Contracts. Under a management or service contract, the private firm is usually given explicit responsibility for some, but not all, aspects of operations and management. Many management contracts, for example, limit a private contractor's ability to hire, fire, or reassign staff. Under a management contract, performance bonuses are often available, but the bonuses are (or should be) tied to outputs the management contractor is able to control, given its limited responsibilities.

The term service contract is generally reserved for agreements under which the private firm is asked to undertake one or two specific tasks only. Many agreements referred to as management contracts are actually service contracts, because the private contractor's responsibilities are quite limited. As with management contracts, payments for service contracts may include a performance contingency payment of some kind.

As mentioned earlier, purely private enterprises transact regularly with the private sector for supplies, maintenance, and other services. Such transactions are not typically viewed as PPPs, nor do we view them as such for the purpose of this study.

Two distinctions are often made between simple contracts for goods and services and PPP contracts:

- Under a PPP, the private contractor's payment depends, at least to some extent, on whether the contractor is able to deliver results or outputs, not simply inputs.
- Under a PPP, the private sector is responsible for delivering a set of guaranteed outputs over a longer period of time than in a standard service contract. What "longer" means is a matter for interpretation, but PriceWaterhouseCoopers has made the useful distinction that PPPs offer guarantees on outputs that last longer than the standard warranty period for the asset or service that is being provided.[3]

For the purposes of this paper, both of these distinctions must hold in order for an agreement to be defined as a PPP.

Definition of a PPP Unit

It is now known what is meant by "PPP." What then is a "PPP Unit"? The paper has adopted a fairly inclusive definition of PPP Units, to include any organization designed to:

- Promote or improve PPPs, as defined in Section 2.1. A PPP Unit may manage the number and quality of PPPs by trying to attract more PPPs, or trying to ensure that the PPPs meet specific

[3]Delivering the PPP Promise. PriceWaterHouseCoopers. 2005.

quality criteria such as affordability, value for money, and appropriate risk transfer.

- Has a lasting mandate to manage multiple PPP transactions, often in multiple sectors. This distinguishes the PPP Units studied from PPP teams working within a single ministry, or committees assembled only to work on specific transactions. In fact, creation of such ad hoc PPP teams is an institutional alternative to permanent PPP Units.

Definition of Success

The paper defines a successful PPP Unit as "a PPP Unit that contributed to the implementation of a successful PPP program."

The definition of a successful PPP Unit therefore requires a definition of success for a PPP program. This paper is not a guide to successful PPPs, but it must assume some consensus on the characteristics of a "good" PPP strategy in order to judge a Unit's success. A successful PPP is one that:

- Provides the services the government needs
- Offers value for money as measured against public service provision (where value for money is measured by the net present value of lifetime costs, including the cost of risk bearing)
- Complies with general standards of good governance and specific government policy such as:

– Is procured with transparent and competitive procurement

– Being fiscally prudent

– Complying with the legal and regulatory regimes that apply to the industry in which the PPP will exist.

A successful PPP program is a program that fosters successive PPP transactions that meet the above criteria.

It is important to recognize that success in meeting these criteria is relative. For example, implementing a successful PPP in Bangladesh is probably more difficult than implementing a successful PPP in Victoria, Australia. The assessment of success in Section 3 takes each country's circumstances into account.

3 Why Governments Enter into PPPs

Any understanding of the role of PPP Units must be grounded in an understanding of the role that PPPs play in achieving governments' policy objectives. A combination of political, fiscal, and developmental pressures can tempt government agencies to pursue PPPs for the wrong reasons.

Pursuing PPPs for the wrong reasons usually leaves the government with poor-quality PPPs, and unsustainable PPP programs. The wrong reasons usually involve a desire to push major investments off the balance sheet, when governments find their budgets restricted. Inappropriate objectives for PPPs will lead to inappropriate PPP policies and strategies, which PPP Units are unlikely to transcend. However, if the government's high-level objectives with respect to PPPs are appropriate, it important to consider whether PPP Units may help individual government agencies to avoid entering into PPPs for the wrong reasons.

The paper discusses first the wrong, yet most common, reasons governments enter into PPPs. It then discusses the right reasons for PPPs, with a mention of several reasons for PPP that may apply in developing countries, even if they do not apply in developed countries.

The Wrong Reasons for PPP

Many of the governments studied initially used PPPs to attract private finance when they found their own budgets constrained. In such cases, their preference for using private finance may have more to do with their desire to disguise public expenditure and to push it off-budget than with any real risk transfer, innovation, or efficiency gain.

The consequences of pushing commitments off-budget are reduced incentives and ability to control costs, and the risk that the government will accumulate more liabilities than it can manage. Governments in most developed countries with longstanding experience in PPPs have come to recognize that the cost of PPPs must be assessed using the same standards as used for other forms of government spending. For example, the governments of Portugal, the UK, and Victoria (Australia) all started implementing PPPs in an attempt to escape fiscal constraints, but have now integrated PPPs into their overall fiscal accounting and risk management framework.

The Right Reasons for PPP

Governments that use PPP are increasingly coming to realize that PPPs are useful in limited circumstances. Box 3.1 shows the reasons Partnerships Victoria (PV) enters into PPPs. These are good reasons that are consistent with what many enduring PPP programs,

Box 3.1
Objectives for PPPs in Victoria, Australia

- To maximize the level of infrastructure spending through a responsible use of the resources of both the public and private sectors
- To ensure that infrastructure and related ancillary services are provided in accordance with best practice, and, where appropriate, to relevant international standards
- To promote growth and employment opportunities for the whole of Victoria
- To deliver significantly improved services to the community
- To encourage innovation in the provision of infrastructure and related ancillary services
- To maximize the social and economic returns from government expenditure
- To pass through the benefits of Partnership Victoria to customers, businesses, and the Victorian community
- To clearly articulate accountabilities for outcomes.

Source: Partnerships Victoria, "The Policy."

including Victoria's, have learned through many years of trial and error.

In Victoria in the 1980s, PPPs were driven by a desire to move projects off balance sheet. Little risk was transferred, and project financiers were guaranteed a rate of return. In the 1990s, the focus of PPPs shifted toward achieving greater growth and efficiency through private sector involvement. Projects implemented during the 1990s generally produced positive economic and financial benefits, but a focus on maximum risk transfer to the private sector put some projects into jeopardy. The objectives for PV, which was created in 2000, recognize the illusive nature of a true off-balance-sheet PPP, and avoid the presumption that the private sector is necessarily more efficient in building and operating public assets.[4]

PPP Units in South Africa, Portugal, and the UK have come to similar conclusions. The consensus of PPP policy makers in these countries is that PPPs are best if they:

- Achieve net present value for money as measured against services the government could provide on its own
- Achieve optimal risk allocation between the public and private sector partners (rather than maximum risk transfer to the private sector)
- Are affordable for governments over the duration of the agreement. This consideration has driven an increased focus on whole-of-life costing analysis.

PPP Motivations for Developing Countries

Developing countries may have other valid objectives in pursuing PPPs agreements. In developing countries, for example, there may be more scope for PPPs to:

- Provide incentives for improved efficiency and performance
- Create arms-length relationship between governments and providers of services, thus enabling governments to enforce contracts more effectively
- Provide access to skills and technologies that would not otherwise be available.

Finally, it is important to recognize the possibility that, in countries with poor sovereign ratings and high sovereign borrowing costs, well-structured PPPs may, in time, bring the cost of private sector financing below sovereign levels. This would be possible if revenue flows within the PPP Unit were insulated from the government's fiscal constraints, and investors perceived little risk of government intervention to drive tariffs to below cost-recovery levels. In such a case, the cost of finance may reflect project risks, which would be lower than sovereign risks.

[4]PPPs in Australia: The Partnership Victoria PPP Framework. Presentation by Richard Foster, Executive Manager of Partnerships Victoria. 2nd Annual Conference on Privatizations, PPPs, and PFI. Kuala Lumpur. June 12, 2006.

4 Why Governments Create PPP Units

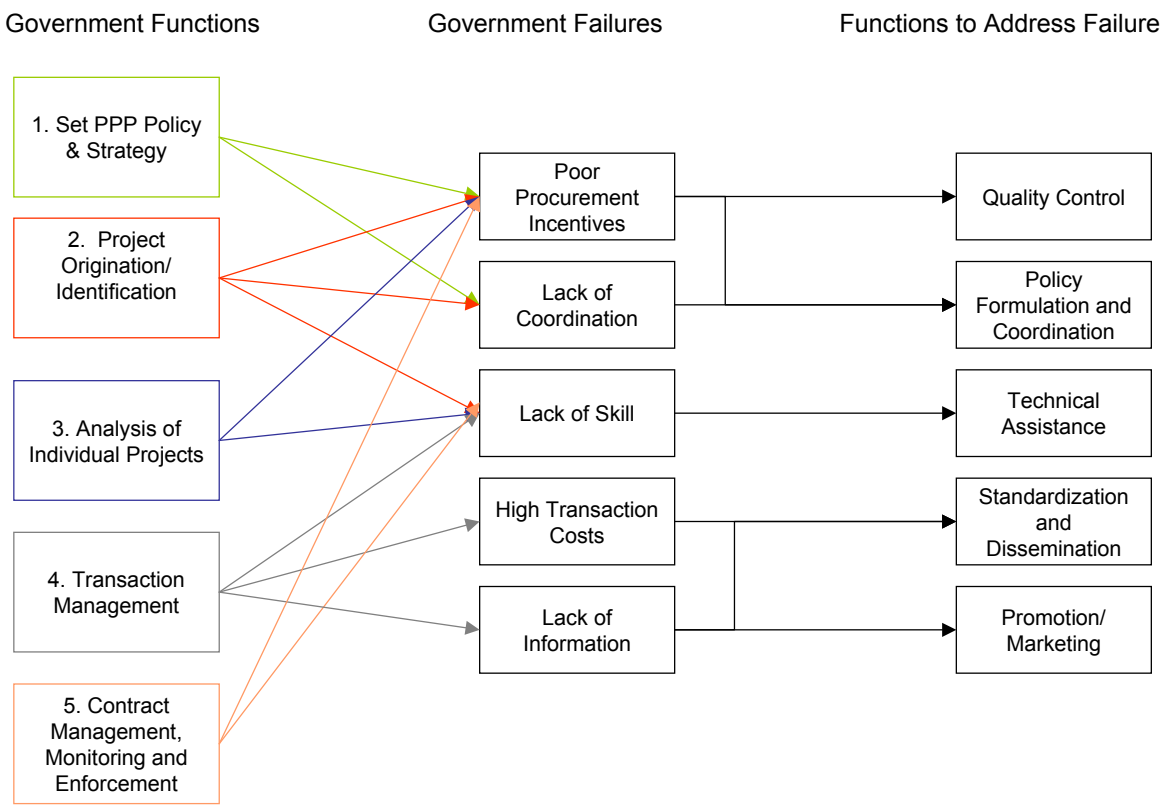
Specialized PPP Units are generally created in response to weaknesses in the existing government's ability to manage a PPP program effectively. Governments in different countries will suffer from different institutional failures in PPP procurement. PPP Units therefore need different designs in different countries, so they can address the specific government weaknesses concerned. In other words, the medicine must fit the disease.

Figure 4.1 shows:

- In the left-most column, the functions governments typically play as part of PPP development
- In the middle column, failures associated with each of these functions
- In the right-most column, the ways in which PPP Units can respond to government failures.

The items in each of these columns are discussed in the sections that follow.

Figure 4.1
Government Functions, Failures, and Roles of PPP Units

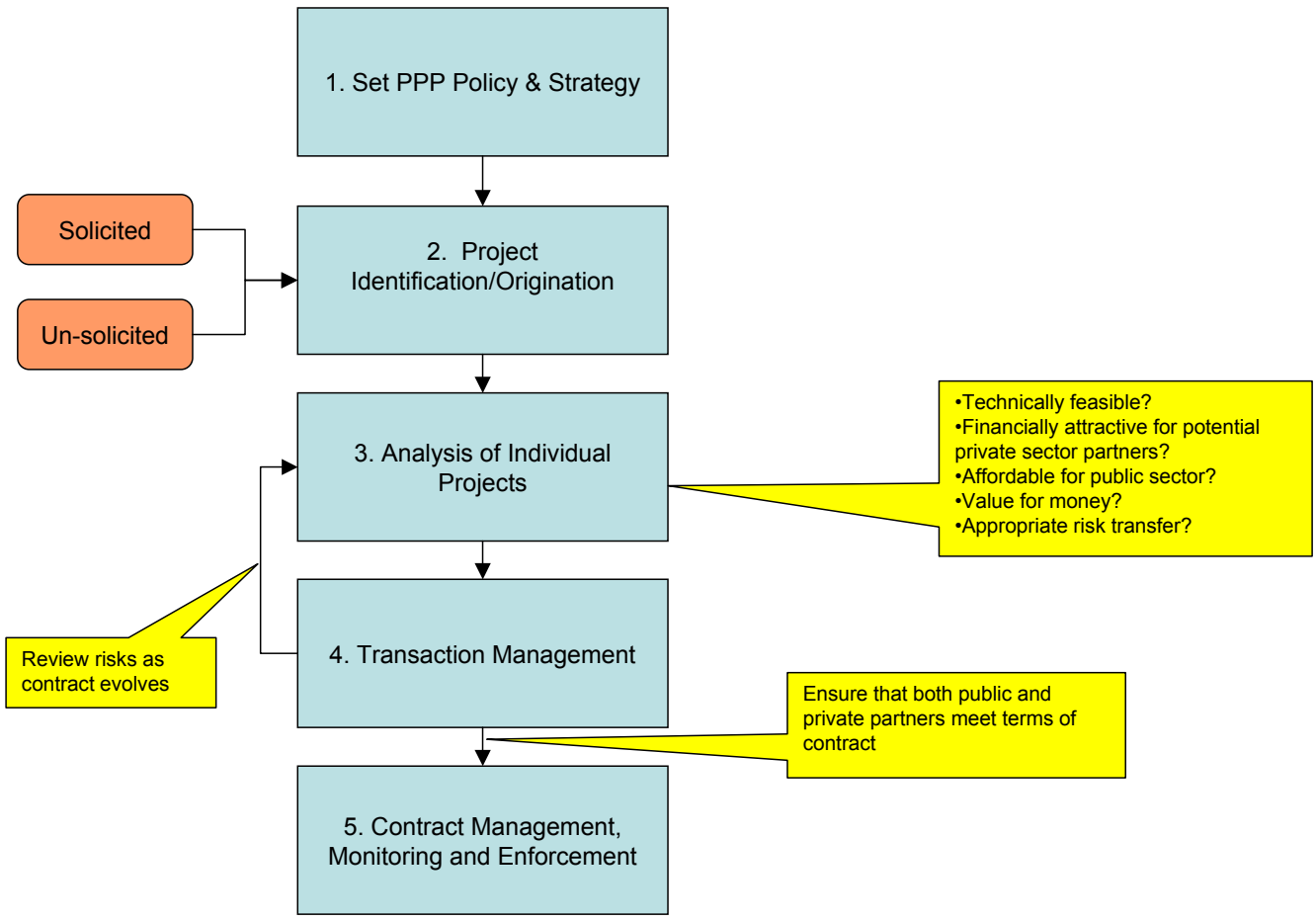


Government Functions in PPP Procurement

To understand the institutional features of various PPP Units, it is important to delineate clearly the possible functions of a Unit relative to the overall set of government functions and tasks that need to be performed to procure and implement PPPs.

Figure 4.2 again summarizes the main functions that must be performed, with additional annotations to Figure 4.1, showing what happens at different stages of PPP procurement.

Figure 4.2
Summary of Government Functions with Respect to PPP



A specialized PPP Unit may perform all or some of these functions. The main functions are:

- **Step 1: Set PPP Policy & Strategy**—These activities involve setting overall policy for PPPs. This means deciding what sectors will be priorities for PPP, and which types of agreements on Figure 2.1 will be the focus of the PPP program.
- **Step 2: Project Origination**—The government needs to be able to identify suitable PPP projects. PPP projects can originate in one of two general ways:
  - Solicited proposals, in which a government agency develops the idea for a specific PPP transaction
  - Unsolicited proposals, in which a private investor or operator develops the idea for a specific PPP project, and brings it to the government.

  Some governments work with a mix of solicited and unsolicited proposals; others allow for development of solicited PPP proposals only. The role of the PPP Unit in developing these proposals differs considerably from one country to the next. PPP strategies in Chile, the Philippines, Republic of Korea, and South Africa all include a mix of solicited and unsolicited proposals.
- **Step 3: Analysis of Individual Projects**—Having received or developed a project concept in Step 2, the government next must analyze the opportunity. Such analysis usually involves:
  - A prefeasibility study and feasibility study, to determine whether the proposed project is technically feasible and would be financially attractive to a private investor or operator. Some agency of the government typically assumes responsibility for feasibility studies for solicited proposals. The private operator typically (though not always) assumes responsibility for feasibility studies for unsolicited proposals. In many cases, the government and private partners will each do their own feasibility studies.
  - Governments may also, but do not always, evaluate whether:
    - Given other fiscal priorities, the government has sufficient funds, or can mobilize sufficient financing, to uphold its obligations under the project
    - Whether the project offers risk-adjusted "value for money" versus some counterfactual (the counterfactual is referred to in the UK, Victoria, and South Africa as the "public sector comparator")[5]
    - Whether the appropriate risks are transferred to the private operator/investor (and away from the government), given the remuneration the private operator/investor will receive.
- **Step 4: Transaction Management**—Transaction management encompasses the entire procurement and tender process. PPP procurement can proceed in a number of different ways, but usually involves, in the case of a competitive tender for solicited proposals:
  - Notice of procurement to request expressions of interest (EoIs) in the PPP opportunity
  - Issuance of prequalification documents with detailed criteria for prequalification

[5]For a discussion of whether a public sector comparator makes sense for developing countries, see Leigland, James, and Chris Shugart. "Is the public sector comparator right for developing countries? Appraising public-private projects in infrastructure." Gridlines. Public-Private Infrastructure Advisory Facility. Note No. 4. April 2006.

- Evaluation of prequalification applications followed by a short-listing of three to six firms that meet the pre-qualification criteria
- Issuance of a request for proposals (RfP) with procurement documents. These procurement documents usually include a draft contract and annexes to the contract with full technical and financial details on the opportunity
- An iterative process of question and answer between bidders and the government. This iterative process may, in some cases, require the government to make changes to the procurement documents in accordance with suggestions, or to clarify the terms of the tender. Bidders usually also take the opportunity to conduct their own due diligence of the opportunity at this stage
- Submission of bids by a fixed deadline
- Evaluation of bids by the government agencies responsible for the procurement
- Notification of the winning bidder and final negotiation and signing of the PPP contract.

PPPs in Bangladesh and Jamaica, for example, were not always procured through competitive tender but through direct negotiation or an ostensibly competitive process where selection criteria were unclear.

- **Step 5: Contract Management, Monitoring, and Enforcement**—Contract management refers to the activities required after contract signature and before the end of the term of the contract. Some party, often a line agency responsible for the sector in which the PPP project takes place, has responsibility for monitoring and enforcing the contract. "Monitoring," in this case, means checking to ensure that the private operator/investor fulfills its responsibilities under the contract, by delivering the services it has promised at the price agreed. "Enforcement" means applying the penalties or requiring the remedies included in the contract when the private operator/investor fails to live up to its contractual responsibilities. Contract management may also include renegotiation of contract terms if either the private or public partner finds itself unable to meet its contractual responsibilities.

A government's decision about which specific functions are allocated to the PPP Unit will depend on:

- The functions allocated to other government agencies
- The ability of the government to coordinate the performance of different functions by different agencies within its overall machinery of government.

Table 4.1 describes the functions of the PPP Units selected for our case studies within the overall government functions that need to be performed. Checks (✔) are assigned where a PPP had primary responsibility for a certain function or, even if they did not have primary responsibility, that function was formally assigned to them through a law or their charter. Otherwise, a cross (✕) is assigned.

In practice PPP Units often assume roles different from those formally prescribed, either because they are particularly ineffective in fulfilling a formal function, or because they prove so effective or influential that their involvement extends beyond their formal mandate. Table 4.1 also notes examples of some of these nuances.

Table 4.1
Responsibilities of PPP Units throughout the PPP Life Cycle

Jurisdiction and Unit	Development of PPP Policy & Strategy	Project Origination	Analysis of Individual Projects	Transaction Management	Contract Monitoring and Enforcement
Bangladesh, IIFC	✗ Executive Branch (Prime Minister)	✗ Line agencies originate projects	✓ Advises Private Infrastructure Committee (PICOM) in Prime Minister's office	✗ Assists line agencies as requested only	✗
Jamaica, NIBJ	✗ Has strong influence on policy but not exclusive responsibility	✓ Private partners sometimes go directly to NIBJ instead of line agencies	✓	✓ Though not exclusive. NIBJ leads the cross-sectoral Enterprise Team assigned to manage each transaction	✗
Philippines, BOT Centre	✓	✗ Line agencies and local government units originate. Unsolicited proposals from private sector are also allowed	✓ Advises Investment Coordination Committee (ICC) and usually asked to review project proposals	✗ Sometimes asked by implementing agencies or the ICC	✓ Formal role includes monitoring but has, in practice, done so only on an ad hoc basis. Often asked to assist in contract renegotiations
Portugal, Parpública PPP Unit	✓ Advisory to Ministry of Finance	✗ Line agencies originate projects	✓	✗ But often asked by Ministry of Finance to sit on tender committee	✓ Does some monitoring for Ministry of Finance but not contract management. Often asked to assist in contract renegotiation
South Africa, Treasury PPP Unit	✓	✗ Though has, in some cases, identified potential PPP opportunities for line agencies	✓	✗ PPP Unit is a full member of the steering committee for transactions, and implementing agencies know it is in their interest to involve unit as early as possible	✗ Do monitor performance of some contracts, and have assisted in contract renegotiations. Implementing agencies manage contracts

continued

Table 4.1 continued
Responsibilities of PPP Units throughout the PPP Life Cycle

Jurisdiction and Unit	Development of PPP Policy & Strategy	Project Origination	Analysis of Individual Projects	Transaction Management	Contract Monitoring and Enforcement
Republic of Korea, PIMAC	✓	✗ Line agencies, local governments. Unsolicited proposals from the private sector are also allowed	✓	✗ But often asked by line agencies to assist	✗ Conducts quarterly surveys of PPPs, but contract management done by line agencies
United Kingdom, Partnerships UK and Treasury Taskforce	✓	✗ But Partnerships UK helps line agencies identify suitable projects	✓	✓	✓ Treasury has a monitoring role, as does UK national audit office
Victoria, Australia Partnerships Victoria	✓	✗ Has helped line agencies identify projects in their portfolio that would be suitable	✓	✗ Line agencies manage the transactions but PV approval required at several stages	✗ Line agencies responsible, but PV provides guidance

Government Failure

Table 4.1 shows that none of the PPP Units surveyed are responsible for all of the relevant functions. There is no obvious best practice with regard to which functions are covered by the central PPP Unit. Accordingly, the actual allocation of functions in each individual case needs to be considered within the context of the specific government failures that the Unit needs to address.

The failures PPP Units are meant to address can be classified into the following categories:

- Poor incentives for procurement of PPPs
- Lack of coordination within the machinery of government
- Lack of necessary skill
- High transaction costs
- Lack of information.

These failures correspond to the boxes appearing in the middle column of Figure 4.1.

Poor Incentives for Procurement of PPPs

The main reason government PPP programs are unsuccessful is that government agencies have inappropriate incentives. Government agencies may have incentives to procure too many PPPs, or too few.

On the one hand, line ministries may have an incentive to enter into more PPP contracts than can be managed within the government's fiscal capabilities, if the fiscal consequences are not made clear and palpable to those agencies. As long as a ministry believes that it can shift the costs to other sectors within the government, it may pursue PPP transactions in excess of what is affordable or what represents value for money. Similarly, a ministry that does not directly bear project-related risks may not be sufficiently diligent in ensuring that the private sector bears an appropriate level of risk. As shown in Box 4.1 and Box 4.2, similar experiences with government incentives, albeit in different sectors, motivated Portugal and South Africa to create their PPP Units.

On the other hand, line ministries may have insufficient incentive to enter into public private partnerships. In many cases, direct involvement in the provision of a public service provides ministry officials with opportunities for influence and patronage that may not be available otherwise. PPPs introduce explicit contractual arrangements and commercial incentives for the service providers, and so typically reduce opportunities for patronage. This is particularly true when PPPs are competitively procured. Hence, the beneficiaries of patronage may be unwilling to allow PPPs to take place, even when a PPP would be best from a public policy perspective. More generally, agencies may fear that PPPs will bring job losses or loss of influence for certain offices or departments within the government agencies responsible for procuring PPPs.

In many governments, both incentives will likely be present at the same time, with the same ministry both holding back projects that should be advanced, and promoting projects that should not proceed.

Some governments have tried to address the problems these incentives create through public sector management reforms. Such reforms may include the introduction of performance contracts for heads of agencies, or public finance reforms, such as the introduction of accrual accounting designed to capture contingent liabilities. However, the full set of consistent and coherent reforms may be difficult to implement, and may be beyond the technical capability or the political will of many governments. For example, as described in Box 4.2, South Africa's PPP Unit was created to prevent line ministries from pursuing PPP projects that allowed them to circumvent formal budgetary limits (which had been established through law by recent public finance reforms). In such cases, the creation of a specialist agency designed to offset the inappropriate incentives facing other agencies may be an appropriate institutional response.

Box 4.1
Reasons for Creation of Parpública's PPP Unit

Portugal's PPP Unit was created specifically:

- Out of a perceived need for better transfer of information to all branches of government on: a) contract design and b) procurement, because of poor experience with PPP efforts in the past
- To ensure better efficiency in provision of services and not just the swift, off-budget completion of infrastructure projects.

PPPs were initially pursued in Portugal in the early to mid-1990s as a way to move large infrastructure investments off balance sheet. PPPs were seen as particularly important at a time when, because of EU membership, there was so much importance placed on Portugal's fiscal policy.

More recently, Portugal's PPP policy has evolved as part of broader policy goals to move the government from year-on-year budgeting toward multiyear budgeting. There was little consideration for the intergenerational or long-term lifecycle costs of these projects. As part of the reform effort, Portugal rationalized the decision-making process for PPPs by:

- Promoting consideration and more transparent presentation of the long-term budgetary implications, in order to ensure the project's financial viability. It did this by explicitly reviewing the long-term financing shortfall for which the government would be responsible
- Requiring evaluation versus a public sector comparator, as a way of standardizing evaluation criteria, if not also assessing potential value-for-money and efficiency gains from PPP.

Box 4.2
Reasons for Creation of South Africa's National Treasury PPP Unit

South Africa's PPP Unit was developed to counteract the risk that line ministries would use PPP to circumvent formal budgetary limits established through law by the Public Finance Management Act (PFMA). PPPs were, until creation of the PPP Unit, mostly used with this goal in mind. Shifting risk to the private sector or achieving greater efficiency or value for money through private sector involvement were only secondary goals.

A single specific transaction provided the catalyst for creation of the PPP Unit. The Ministry of Public Works wanted to design a 30-year BOT contract for two prisons. Treasury found out about the transaction and asked to review the contract. Treasury's review found that, whereas the prisons indeed offered value for money, they were extremely expensive to build and therefore not affordable from an overall fiscal perspective.

The PPP Unit was established to set clear rules for public and private partners, while providing better fiscal oversight. As a result of the country's early experience with PPPs, the new regulations on PPP now require that PPPs meet three criteria:

- Affordability
- Risk management
- Value for money.

Treasury approval is required at four stages

- Upon completion of feasibility study
- Upon completion of bid documents (including draft PPP agreement)
- Upon selection of preferred bidder and preparation of value-for-money report
- Upon finalization of negotiations with bidder and finalization of PPP agreement.

PPPs are now used in South Africa primarily to transfer specific risks to a private sector operator who is better able than the public sector to bear such risks.

Lack of Coordination within Machinery of Government

PPP policy is typically established by a central unit of government, such as a Department of Finance (as in South Africa) or the President's or the Prime Minister's office (as in Jamaica). Implementing that policy requires the coordination of many more agencies. Agencies across a number of sectors—for example roads, education, health, justice, and water—need to identify projects. These agencies need to ensure that the projects fit within the policy criteria. The Ministry of Finance should also be involved, to assess the fiscal cost and risk of the project. Regulatory and planning agencies may be involved in planning, permitting, land acquisition, and tariff setting. Achieving coordination between such a wide array of organizations is a struggle for most governments, particularly those in developing countries.

In many governments, individual agencies operate within "silos," with little information sharing or cooperation with other agencies. Sometimes the silos are reinforced through competition between political figures in charge of those agencies. The silos may also derive from the institutional history, from inappropriate legislation, or from the tradition of secrecy within the government.

In a silo situation, agencies with related functions may not be able to coordinate their activities sufficiently to make PPPs happen. For example, a complex PPP transaction in the water sector may require coordination between the Ministry of Finance (which would provide subsidies where tariffs do not reach cost-recovery levels) and a regulator or a line ministry (which would set the tariffs, coverage targets, and other policy objectives). However, in practice, decisions on tariffs and subsidies are often made independently of each other. In such a situation, the agency in charge of tariffs can restrain tariff increases, believing that the revenue shortfall should be filled by subsidies, while the agency that makes decisions on government expenditure may refuse to provide funds for subsidies, arguing that the cost of service should be met from tariffs. The result of such coordination failures is that the sector remains unable to cover the costs of providing a good service, while PPP transactions become unviable.

In cases where policy making and implementation are poorly integrated, it is tempting to create a new agency to cut through the lack of integration, and to provide overarching guidance and control. This is not always the best solution. For example, an agency charged with "making something happen" may not understand all the sectors it works in, or be sensitive to broader sector objectives or good governance requirements. There are various solutions to poor coordination between agencies. There are also several ways to ensure that a whole-of-government approach to PPP transactions prevails. Creation of a central PPP Unit may be a solution, if other forms of coordination are less viable or more difficult to implement. Section 4.4 discusses some alternative possible solutions for addressing the coordination problem as well as the other government failures identified in Figure 4.1.

Lack of Skill

PPP procurement requires specialized skills that often are lacking in government, particularly in developing countries. It is common for a government to focus on the need for skills involved in managing a successful transaction. Such skills, however, can often be procured through external advisory services. More important are the skills involved in managing the complexity of the public-private interface: understanding how particular PPP projects fit within the government's sector and service delivery objectives, and how the allocation of risks under any particular project fits into the government's overall fiscal strategy.

When PPPs turn out to be unsuccessful, their failure often derives less from poor management of the transaction process, but more from lack of attention being paid to the government policy reforms that may be required for success. Such attention would involve the design of explicit and sustainable subsidy schemes, improving the government's planning capacity, and ensuring that the government appropriately performs its ongoing role within the public private partnership. For example, failures of many management contracts can be attributed to clashes between the publicly appointed boards of government companies and the management contractors.

Because so many other factors, other than skills, can affect the outcome of a PPP, it is important to be clear about which skills the government is lacking. Training requires time and resources, and hiring technical experts as full-time staff can be expensive. Many PPP Units address a lack of skills by outsourcing short-term work that requires specific technical expertise, or by hiring longer-term consultants to work with full-time staff. Box 4.3 describes how different PPP Units have sought to ensure they have the right skills to carry out their responsibilities.

Box 4.3
How PPP Units Ensure They Have the Right Skills

- The Philippines BOT Centre makes extensive use of long-term, local, in-house consultants.
- The UK Treasury PPP Task Force utilizes a mix of public sector employees and professionals seconded from the private sector for a fixed number of years.
- The South Africa National Treasury PPP Unit carries out much of its own technical work in-house, but hires some specialist consultants for short-term contracts.
- IIFC in Bangladesh makes extensive use of local consultants. A small team of permanent staff manage the team of consultants.
- Australia's Partnerships Victoria engages contractors to do some of the policy and technical work (such as legal drafting). Much of the project-specific work is done internally, however, with one or two officers from Partnerships Victoria involved in each project. If consultants are hired they are typically hired as outside advisors for 6-12 months, working from their own offices and not as internal staff.
- Portugal's Parpública uses outside consultants only when they have a specific engineering question they need to consider.
- Korea's PIMAC tries to do as much of the work in-house as possible, with at least three PIMAC staff assigned to each project.

High Transaction Costs

Where each PPP transaction is a bespoke deal, and each is considered on an ad hoc basis, the transaction costs for both the private and the public sector are likely to be high. The costs of implementing a PPP can be reduced through:

- Preparation of standard "off-the-shelf" legal documents and operations manuals. Standardized documentation can help to limit the time that line ministries and their transaction advisors spend preparing basic documents. Continued use of standardized documentation can also limit the amount of time governments spend clarifying tender documents or negotiating contracts with private sector partners, because private sector partners will already be familiar with the basic terms of PPP contracts from previous transactions. The UK Treasury, for example, has a guide to Standardization of PFI Contracts (SoPC) with the goal being to: "promote a common understanding of the main risks which are involved in a standard PFI project… to allow consistency of pricing

and approach across a range of similar projects and… to reduce the time and costs of negotiation by enabling all parties to agree to a range of areas that can follow a standard approach without extended negotiations."[6]

- Standardization of procedures and requirements (such as acquiring permits) for bringing a project from inception to closure.[7] Such standardization can reduce redundant government activity and the time required to grant approvals.

Standardization of documentation, procedures and requirements can also lower transactions costs for the private partner. Over time, these lower transactions costs should, at least in theory, pass through to the government in the form of more competitive bids. A PPP program with high-quality documentation and clear procedures can reduce the effort and risk-adjusted value of time the private partner must commit.

Lack of Information

Finally, investors may not have adequate information about the opportunities available in a particular country, or may have misperceptions about the risks involved. A PPP Unit could improve the flow of information by focusing on the need to promote PPP opportunities in a way that no other government agency would be able to. A PPP Unit may even become a recognized "brand," like Partnerships UK, so that information from this Unit would be seen as being reliable and valuable.

By providing better information to the private sector, PPP Units can help jumpstart the market for PPPs. In the UK, PFI has helped attract nearly £50 billion of private sector investment in infrastructure.

How Government Failures Determine Unit Functions

PPP Units can contribute to the success of a PPP program when the PPP Unit addresses the failures identified in Section 4.2. This hypothesis will be tested in Section 5, but first it is necessary to relate the failures to functions (intended to address those failures).

As shown in Figure 4.1, we believe PPP Units contribute to the success of a PPP program if they fulfill five functions, namely:

- Technical assistance to the public sector, private sector, or both. In Bangladesh, the Infrastructure Investment Facilitation Center (IIFC) was established to address a complete lack of experience, among line ministries, in procurement and most forms of interaction with the private sector.
- Policy formulation and coordination. In some cases the Units are the only source of PPP policy. In Victoria, Australia, Partnerships Victoria is the embodiment of the government's PPP policy.
- Quality control of PPPs, throughout the life of the contract, and not only prior to contract signature. In South Africa, for example, the PPP Unit was established to stop fiscally irresponsible PPPs from being designed to skirt new government budget reforms. In Victoria, Partnerships Victoria was established to make sure the government was getting value for money for its PPPs and transferring optimal (rather then maximum) risk.
- Promotion/marketing of PPPs, possibly extending to origination of PPPs. In Republic of Korea PICKO (PIMAC's predecessor) was established to help both the private sector and

[6]Standardization of PFI Contracts, Version 3. HM Treasury. April, 2004. p. 9.

[7]Standard requirements may include any permits (for example, construction or natural resource permits) needed from other government agencies.

government agencies better grasp the potential benefits of PPPs.

- Standardization and dissemination of information about the PPP program. In nearly all the cases we surveyed, the PPP Units have taken at least some efforts to:
  - Standardize procurement and thereby lower the transactions costs of procuring PPPs
  - Develop a well understood pipeline, thereby increasing bidder interest.

Alternatives for Addressing Government Failure

There are many examples around the world of successful PPPs being implemented without a central PPP Unit. The government of Victoria, for example, implemented PPPs for tram and suburban train transport in Melbourne, as well as a major toll road, before the Partnerships Victoria Unit was established. These transactions were managed by task forces reporting jointly to the Department of Treasury and Finance and the relevant sector ministry.

Government failures that may justify the creation of a PPP Unit are not necessarily universal, and a PPP Unit may not be the only solution to a government failure, or may only be part of a broader set of institutional solutions. Table 4.2 lists examples of how governments may fulfill the functions of PPP procurement and implementation without (or in conjunction with) PPP Units.

As stated in Executive Summary, this paper seeks to show whether PPP Units have contributed to successful PPPs and, if so, under what conditions. In each individual case, the success of the PPP unit needs to be considered against the counterfactual of the government using alternative institutional solutions to perform various functions associated with PPPs, and hence, to address possible government failures. Given the time and resource constraints for the case studies, this paper does not try to construct a hypothetical counterfactual for each of the jurisdictions being studied. For example, it does not ask whether the most likely alternative to the National Investment Bank of Jamaica would have been a specialist Unit with the Prime Minister's office, or no Unit at all. Where a Unit has been identified as being relatively unsuccessful, the implication could be either that a Unit with more appropriate functions could have been more successful, or that, in the particular circumstances of the country in question, an alternative institutional solution would have been more appropriate.

Table 4.2
Alternatives to Addressing Government Failure

Government Functions	Possible Institutional Solutions
Set PPP Policy & Strategy	▪ PPP policy and strategy determined at executive level, enshrined in a government policy statement or legislation
Project Origination/Identification	▪ Teams within implementing agencies conceive or identify their own projects ▪ Private sponsors are allowed to propose (unsolicited) projects, with a mechanism to tender the proposals competitively while compensating the project sponsor for effort put into developing the proposal
Analysis of Individual Projects	▪ Teams within the implementing agencies undertake their own analysis, or outsource the function to private advisors, and manage the advisors
Transaction Management	▪ Teams within the implementing agencies hire transaction advisors and manage the work of the transaction advisors
Contract management, monitoring, and enforcement	▪ Project officers within implementing agencies manage the contracts ▪ A sector regulator monitors the contract and enforces contract if there are breaches ▪ A specialized and independent contract management unit (CMU) is established to manage the contract, staffed by highly competent individuals from either the public or private sector

5 PPP Unit Functions as Determinants of Success

It was proposed in Section 4 that PPP Units could contribute to the success of PPPs if they fulfilled specific functions designed to correct government failures. A successful PPP was defined in Section 2.3 as one that:

- Provides the services the government needs
- Offers value for money as measured against public service provision (where value for money is measured by the net present value of lifetime costs, including the cost of risk-bearing)
- Complies with general standards of good governance and specific government policy such as:
  - Transparent and competitive procurement
  - Being fiscally prudent
  - Complying with the legal and regulatory regimes that apply to the industry in which the PPP will exist.

A successful PPP program is a program that fosters successive PPP transactions that meet the criteria above.

In practice, this paper measures success in a way slightly different from that defined above, because of the limits of available data. Cross-country comparisons of value for money, for example, are not likely to be meaningful given the different way in which each country calculates VfM, and the fact that some countries do not formally calculate VfM at all. Anecdotes, however, are available on agreements that governments have canceled or tried to cancel because they were unsatisfactory.

Because somewhat different data are available for each country, the approach to scoring success necessarily differed somewhat from case to case. In general, however it took the following steps:

- Considered whether the PPP program succeeded in achieving the goals set for it, and whether those reasons were consistent with what have been identified as the "right" reasons for PPP in see Section 3.2
- Considered the level of total PPP activity in a given country, using the broadest possible definition of PPP (spanning from management contracts to divestiture)
- Considered anecdotal evidence of "bad" PPPs that showed, for example, hidden fiscal risks or poor alignment with policy
- Considered any background factors that make each country's circumstances different enough to justify an adjustment in score. A successful PPP in Bangladesh, for example, is considerably more difficult to achieve than a successful PPP in Victoria.

The sections that follow summarize the main conclusions of the case studies. Each case study:

- Looks at why each country pursued PPPs, and why a PPP Unit was created
- Assesses whether the PPP program was successful
- Assesses whether (and how) the PPP Unit contributed to the success or failure of the PPP program.

Full case studies can be found in Appendix A.

Infrastructure Investment Facilitation Center (IIFC), Bangladesh

The Infrastructure Investment Facilitation Center (IIFC) was established in 1999 to promote and facilitate private sector participation in infrastructure in Bangladesh. IIFC was established to have a policy role and a transaction advisory role, and to advise both the public and private sectors. More specifically, IIFC was intended to:

- Assist line ministries and other government agencies in identifying and prioritizing potential infrastructure projects for tender, and assist with project evaluation, award, negotiation, and implementation
- Promote private sector participation in infrastructure in Bangladesh by working with the private sector and serving as a clearinghouse of expertise on public private partnerships.

Another institution, the Infrastructure Development Company Ltd (IDCOL), was established concurrently with IIFC to provide government debt financing for infrastructure projects. IIFC and IDCOL are government-owned, limited liability companies. They were established with financial support from The World Bank and other donors. IIFC, in particular, received support in the form of consulting services sponsored by the Canadian International Development Agency (CIDA), and the Department for International Development (DfID), UK. The World Bank continues to finance 50 percent of IIFC's operating budget.

IIFC has emphasized that its role is not to encroach on the technical and contracting functions of the agencies, but to provide technical assistance when required. Line ministries are not required to seek IIFC's assistance or to follow any of IIFC's guidelines.

Track Record of PPP in Bangladesh

Despite massive investment needs, Bangladesh has seen extremely low levels of PPP and Private Participation in Infrastructure (PPI). Average annual PPI has represented 0.45 percent of average GDP since 1990. Bangladesh ranks 103rd out of 124 (developing world) countries for this investment ratio, and 6th out of 6 countries in the region.[8]

The record on the quality of transactions has been mixed. Procurement in the power sector, which represents most of the value of PPI completed since 2000, offers examples of both quite good and quite bad projects. Independent power producers (IPPs) represent roughly 25 percent of Bangladesh's generation capacity. The Haripur and Megnaghat projects, two large IPP projects completed in Bangladesh in 2001, are regarded internationally as successful examples of competitive procurement that have continued to yield value for Bangladesh in terms of power reliability at reasonable cost.

More recent IPPs, however, have not been of comparable quality. Government has shown a tendency to interfere in the procurement process. This interference has affected the ability of Bangladesh to install much-needed capacity.[9] Some of the newer IPPs have shown reliability problems, resulting from a combination of poor technology choice, improper design, and faulty operation and maintenance practices.

IIFC has worked on roughly 25 projects. It has assisted in the award of seven-eight licenses to fixed line telephone companies, and six land ports at the country's border points (the latter are worth an estimated US$3 million each). A seaport, a fiberoptic power transmission project, five remote area power supply systems, and an IPP are also currently in different stages of development.

IIFC's Role

In terms of expertise, IIFC rates quite well. IIFC has much more experience dealing with the private sector, and with procurement, than do staff in the line ministries. As a result, line ministries do rely on IIFC's

[8]Calculated with data on PPI from the World Bank PPI Database (ppi.worldbank.org), and IMF World Economic Outlook Database, September 2006 (http://www.imf.org/external/pubs/ft/weo/2006/02/data/index.aspx). The Appendix has comparable figures and rankings for other of the developing countries included in the case studies.

[9]The World Bank. Bangladesh Country Assistance Strategy. April 12, 2006. Box 2.

services to some extent. IIFC's success in building such expertise is due in part to its ability to offer higher compensation than that offered elsewhere in the public sector.

IIFC does less well in its other functions. This is because of:

- A lack of any clear formal or informal power. IIFC provides technical assistance to a Private Infrastructure Committee (PICOM) that sits in the Prime Minister's office, but in practice IIFC has not been influential. In 2004 IIFC developed a set of Private Sector Infrastructure Guidelines for PICOM (with a similar goal as the PPP Manual in South Africa). These guidelines are fairly comprehensive and include, among other things, the requirement for a least-cost competitive tender for PPI projects. Experience has shown, however, that line ministries are not required to follow the guidelines.
- The fact that many parallel agencies have responsibility for procurement of PPPs. Procurement in the power sector, for example, has been undertaken by a range of entities. IDCOL was involved in the procurement of the Meghnaghat IPP. Power Cell, a division of the Ministry of Power, Energy & Mineral Resources, is now formally responsible for IPP procurement, but recent IPPs have apparently been negotiated without Power Cell's involvement. Some individuals familiar with IIFC in Bangladesh suspect that the line ministries may be asking IIFC to handle only the less attractive, unviable projects.

Since IIFC was established, the average value of each PPI transaction appears to have decreased considerably, as has the average value of each project, from roughly US$250 million to US$90 million.[10] This is not likely a result of IIFC's activities, however. IIFC appears to have had only limited, or at best inconsistent, involvement with the PPP transactions closed in Bangladesh since 2000. Individuals familiar with IIFC's activities note that it has succeeded in accumulating more knowledge of PPPs than other government agencies, and may have succeeded in helping to keep the PPI agenda alive in Bangladesh. Ultimately, however, IIFC's overall effect on PPI has been limited because government agencies have no obligation to use IIFC's services or follow any guidelines it may establish.

National Investment Bank of Jamaica (NIBJ)

The National Investment Bank of Jamaica (NIBJ) has had primary responsibility for implementing PPP arrangements in Jamaica since 1984, succeeding the Jamaica National Investment Corporation (JNIC).[11] Widespread dissatisfaction with the operating efficiency of government-owned enterprises, and their drag on the government's budget, provided the impetus for introducing greater private sector participation in these enterprises.

Many government officials viewed NIBJ as relatively ineffective during the 1980s, and little different from its predecessor. The government therefore sought to give new life to the privatization program in 1991 with Ministry Paper No. 34, which contained the first official government policy statement on privatization and formalized NIBJ's responsibility for implementing the privatization program.[12]

[10]The average PPI project size and annual average value of PPI are the same because the number of projects and number of years used as the denominator are identical (in other words, Bangladesh closed one PPI project per year between 1990 and 1999, and closed one PPI per year between 2000 and 2005.

[11]By order of Ministry Paper No. 24 of 1984

[12]We use the term "privatization" throughout this discussion of Jamaica, but PPP arrangements under NIBJ included performance-based management contracts, BOOs, BOTs, concessions, and leases, in addition to full divestiture.

The privatization process was meant to:

- Secure greater efficiency
- Reduce fiscal drain from government-owned enterprises
- Optimize the government's management resources
- Secure enhanced access to foreign markets, technology and capital
- Broaden the base of ownership in the society.

Other goals included streamlining the public sector, improving openness and transparency in the privatization process, removing excessive bureaucratic intervention in the marketplace, and broadening the base of ownership and competition in the economy.

Track Record of PPP in Jamaica

Jamaica completed roughly 45 PPPs between 1989 and 2003. Twelve of these were in infrastructure, the others in competitive sectors. The PPPs consisted of a mix of performance-based management contracts, Build Operate Own, Built Operate Transfer, concessions, and leases, in addition to full divestiture of existing assets.

Average annual PPI in Jamaica has represented roughly 2.25 percent of average GDP since the late 1980s. Jamaica ranks 39th out of 124 (developing world) countries for this ratio, and 9th out of 21 in the Latin America and Caribbean Region.[13]

Despite the volume of PPP activity in Jamaica, however, many transactions have seen problems in that:

- Most PPPs failed to improve operating efficiency and shift appropriate risks to the private sector.
- Several large PPPs have required government bailouts of the privatized enterprise.
- Patronage and secrecy in the political process has called into question the fairness of some privatizations and compromised transparency in some tenders.[14]
- Transactions took longer than expected.

Jamaica's PPP program appears to have failed in reaching the goals that were set for it, one of them being the reduction of fiscal drain. The fiscal burden of PPPs has persisted, largely because the government has intervened to bail out several failed transactions, including Air Jamaica. This is something the country can ill afford, since Jamaica's public debt stands at 128 percent of its GDP. Jamaica ranks 5th in the world in its debt to GDP ratio.[15]

NIBJ's Role

As the principal driver of Jamaica's privatization program, NIBJ's objectives were synonymous with the program's objectives. However, NIBJ failed to meet most of those objectives, for two main reasons:

- The objectives focused more on the outputs of PPP, with little clear definition of what was needed to be done to get there, and how NIBJ could help. In other words, there appeared to be little thought upfront about what makes for "good" PPPs, and how to implement them. For example, NIBJ had attorneys and bankers, but not economists, on its staff. Evaluation of PPP options and specific transactions never involved

[13]Calculated with data on PPI from the World Bank PPI Database (ppi.worldbank.org), and IMF World Economic Outlook Database, September 2006 (http://www.imf.org/external/pubs/ft/weo/2006/02/data/index.aspx)

[14]Data Resource Systems International (DRSI) Ltd. Privatisation Impact Assessment Study, May, 1995. Privatisation Impact Assessment Study, May, 1995 - DRSI Limited.

[15]CIA World Factbook 2006 (https://www.cia.gov/cia/publications/factbook/geos/jm.html).

[16]DRSI Ltd.

any economic analysis of whether the transaction would be good for Jamaica. Careful analysis of risk allocation and efficiency gains were similarly absent. One report found that "…the Jamaican approach has often been described as involving mainly ownership transfer with little or no focus on the efficiency of operations."[16]

The tradition unfortunately continues. Jamaican officials who have seen the terms of the concession for Jamaica Highway 2000, the country's first and so far only toll road, report that most of the operational risks remain with the government, not the private sector operator. The details of the contract remain confidential. The primary goal appears to have been to build a road off the balance sheet, with debt that is largely or entirely government-guaranteed.

- Jamaica's PPP strategy ultimately proved to be inconsistent with the country's political preferences for greater government control of state-owned enterprises, and those political preferences were inconsistent with the country's needs. The government proved unwilling to follow through on its privatization efforts, reversing those efforts, or backing out of plans in several instances, at high cost. For example:
  - In 1994, the government sold a 78 percent stake in Air Jamaica to AJAG group, a consortium owned in part by Sandals Resorts owner Gordon "Butch" Stewart. AJAG group is credited as rehabilitating the airline's image and increasing market share, but at significant expense to the government. AJAG continually sought and secured the government's agreement to cover the airline's losses. After restructuring debt to cover these loans, the government eventually found itself with a controlling share, and again took complete control of the airline in 2005. The abundance of airline carrier competition in the Caribbean makes such a move questionable from an economic standpoint.
  - An abandoned effort to privatize the electricity company Jamaica Public Service (JPS) in 1996 left government management in place until another privatization attempt in 2001. During those five years, because of poor government management, capacity margins fell to 9 percent, from 26 percent, service quality deteriorated, and JPS' cash surpluses dwindled. The government sold 80 percent of the utility for roughly US$200 million, but effectively earned no proceeds because of the sale agreement that was negotiated, which provided for the government to absorb the approximately US$$200 million in accumulated sector debt, largely to multilateral financial institutions, that was left on JPS' books.

NIBJ was responsible for most of the PPP transactions undertaken in Jamaica, and was designated, from its creation in 1984, to drive the privatization program. NIBJ has originated most of the PPPs, and leads the interagency Enterprise Teams that manage each transaction. This is not to say that Jamaica's failed PPPs are all the "fault" of NIBJ. As the conclusions suggest in Section 6, NIBJ is, to some extent, a victim of the legacy of poor institutional design and lack of high-level political support for clear policy decisions and clear transaction processes.

Philippines Built Operate Transfer (BOT) Center

The government of the Republic of the Philippines' efforts to attract private sector participation in state-owned industries dates to 1987 with President Corazon Aquino's issuance of Executive Order (EO) 215. EO 215 sought to avoid an imminent power crisis by allowing IPPs to build and sell generation

[16]DRSI Ltd.

capacity to the state-owned power network on a take-or-pay basis.

The Coordinating Council of the Philippine Assistance Program (CCPAP) had been created in 1989 primarily to mobilize overseas development assistance funds. The Philippines Assistance Program (PAP) overseen by CPAP had been established by the U.S. Congress to support economic growth in the newly restored democracy of the Philippines. PAP was designed to foster private sector involvement, which was seen as a primary driver of economic growth.

In 1993, the CCPAP Chairman was designated Presidential Action Officer for the promotion of BOT, and the CCPAP-BOT Centre was created. CCPAP was effectively an autonomous Unit, attached to the President's Office. The 1994 revision to the BOT law (RA No. 7718) formally gave CPAP responsibility for coordinating and monitoring BOT-type projects and for taking a more pro-active approach to attracting private investment.

In 1999, CCPAP was reorganized into the Coordinating Council for Private Sector Participation (CCPSP), and its authority expanded to cover a wider range of PSP, including joint venture agreements (JVA), concession arrangements, service and management contracts, and other forms of public private partnership.[17]

CCPSP has stated its mission as "effective, efficient, and sustainable infrastructure systems and services to meet the basic needs of every Filipino and spur economic development. Its mission: to actively promote public private partnership as a cornerstone of the national infrastructure development plan."[18] Its functions include, primarily:

- Project development, through technical and financial assistance to line agencies and Local Government Units (LGUs)
- Promotion of the PPP Program and marketing projects to potential investors and project stakeholders
- Policy review and formulation to create a policy framework for PPPs that responds to private sector concerns while protecting the interests of the Philippines
- Assisting line agencies and LGUs in monitoring existing contracts.

In 2002, Executive Order (EO) 144 reorganized and converted the CCPSP and its Technical Secretariat to the BOT Centre, and transferred CCSP's attachment from the Office of the President to the Department of Trade and Industry.

Track Record of the PPP Program

Average annual PPI has represented roughly 3 percent of average GDP since 1990. The Philippines ranks 26th out of 124 (developing world) countries for this ratio, and 7th out of 16 countries in the region.[19]

PPP activity has been robust in the Philippines, but the quality of the contracts has been variable. The many IPP agreements signed during the 1990s succeeded in attracting roughly 4000 MW of new capacity—but at substantial cost to state-controlled energy companies. The power purchase agreements ended up providing more capacity than the country needed (but had agreed to pay for nevertheless),

[17]The BOT Centre is not responsible for privatization. A separate government agency, the Privatization Office, is responsible for divestiture. With the change in law, BOO do fall under the purview of the BOT Centre but any BOO requires presidential approval.

[18]From CCSP: Championing the Philippines BOT Law (www.ip3.org/pub/publication014.htm).

[19]Calculated with data on privatization proceeds from the World Bank Privatization Database (http://rru.worldbank.org/privatization/), data on PPI from the World Bank PPI Database (ppi.worldbank.org), and IMF World Economic Outlook Database, September 2006 (http://www.imf.org/external/pubs/ft/weo/2006/02/data/index.aspx).

and included fuel cost guarantees that limited the private sector's exposure to demand and fuel input cost risk far beyond the risk protection offered in IPPs in other countries.

PPP activity in the Philippines has also seen some well known failures, including the world's largest water sector PPP, the Maynilad Water concession, and a concession agreement with the Piatco consortium to build and operate Terminal 3 in the Ninoy Aquino International Airport (NAIA).

Role of the BOT Centre

The intended scope of the BOT Centre's activities is quite broad, but it has not played as far-reaching a role in PPP as its responsibilities might imply.

As of September 2005, the BOT Centre had assisted in bringing 60 transactions, worth roughly US$18 billion, to financial closure. Power sector transactions represented roughly 40 percent of the total value of transactions, and the US$7 billion privatization of Manila's Metropolitan Water Works and Sewerage System (MWSS) represented another 40 percent. The remaining 20 percent of total transaction value is made up of several smaller transactions in the transport, information technology, property development, and health sectors.

In addition to transaction management, the BOT Centre has provided technical assistance on project development. Philippines line agencies and LGUs generally have limited understanding of how to determine whether a project is worth pursing, and how to procure it. The BOT Law provides some guidance on procurement rules, but the BOT Centre has produced a project development manual and draft contracts to further assist other government agencies. The BOT Centre has also been involved in some successful transactions managed by other agencies, including the 1996 MWSS Manila Water concession.[20]

The BOT Centre's role has focused much more on technical assistance with project development than on its other formally defined roles. The BOT Centre has no formal mandate to approve or deny a line agency or LGU's ability to pursue a PPP transaction. As one former BOT Centre official commented, the Centre cannot even compel line agencies to submit status reports on project development or contract performance.

The BOT Centre formally serves as advisor to the Investment Coordination Committee (ICC), an interministerial committee that evaluates the fiscal implication of major projects and makes recommendations to the President.[21] Transactions can happen without the BOT Centre's involvement and some do (especially local government transactions). However, if a project reaches the ICC, the ICC often recommends that the line agency seek assistance of the BOT Centre.

The BOT Centre (unlike most PPP Units we surveyed) does have a formal monitoring role. In practice, however, its has been less effective in its role as contract monitor, because its monitoring function vis-à-vis the implementing agencies has never been clearly defined. The BOT Centre therefore monitors

[20]The privatization of MWSS in 1997, the largest water privatization in the developing world, has resulted in two drastically different outcomes. One concessionaire, MWCI, performed satisfactorily and became profitable, whereas the other, MWSI, incurred huge losses, defaulted on the concession fee, and declared the suspension of its concession contract. Despite the severe financial problems of one of the two concessionaires, water supply service levels improved in both zones from the preconcession period. Between 1997 and 2002, the total population receiving water services increased by about 1.7 million. Total combined water sales increased by 28% while almost 200,000 new water connections were added.

[21]ICC members include the Secretary of Finance as chairman, the National Economic and Development Authority Director-General as co-chairman, and the Executive Secretary, the Secretaries of Agriculture, Trade and Industry, Budget and Management and the Governor of the Central Bank of the Philippines.

contracts on an ad hoc basis only. The BOT Centre has no leverage to change contracts but has often been asked to advise implementing agencies when contracts ran into trouble.

Like IIFC in Bangladesh, the effectiveness of the BOT Centre appears to be limited by a lack of formal control over PPP procurement, or in the absence of formal control, informal influence. Former BOT Centre staff have observed that the informal influence of the BOT Centre peaked under President Ramos in the late 1990s, and has declined since the Centre was subsumed to the Department of Trade and Industry in 2002.

Parpública PPP Unit, Portugal

Portugal pursued its first PPPs in the mid-1990s, primarily as a way to have new infrastructure built quickly in a way that would rely on private sector, rather than fiscal resources. Most of these early PPPs were in the transport sector, as shadow toll agreements with private operators to build highways and bridges. These early PPPs proved problematic in that they:

- Failed to consider the long-term affordability of PPPs
- Suffered from delays and cost overruns, caused, at least in part by:
  - Insufficient risk transfer to the private sector
  - Rigidities in the procurement process
- Suffered from a lack of public sector capacity for evaluating and managing such partnership agreements.[22]

Portugal's accession to European Monetary Union in 1999 called attention to the importance of fiscal policy, because of the stringent requirements of monetary union and because, having ceded monetary policy to the European Central Bank, Portugal was left only with fiscal tools for macroeconomic management.

By 2001, Portugal's economy had large amounts of external debt, with significant current and capital account deficits. Portugal became the first of the members of the Monetary Union to breach the Eurozone's Stability and Growth Pact budget deficit target of 3 percent.

The government responded by launching a comprehensive program of fiscal reform with the 2001 Budget Framework Law. This law moved the government away from year-on-year budgeting toward multiyear budgeting, planned a transition toward activity-based budgeting, and set out common principles for government accounts, budget planning, and auditing.[23] The law also includes two provisions specifically relevant to PPPs, namely that:

- Government agencies are to make explicit appropriations for PPPs, and to explicitly show the long-term fiscal consequences of such agreements
- As part of the assessment of any PPP, a counterfactual similar to the public sector comparator used in the UK and Victoria, Australia, must be used.

In 2003, the government passed Decree Law No. 86/2003, which provides for "the definition of general rules related to Government intervention in the design, conception, preparation, tender, adjudication, modification, auditing and global surveying of public-private partnerships." The law also sets minimum requirements for PPPs, which seek to avoid problems experienced with past agreements.

Parpública SA, a company owned entirely by the treasury, was subsequently given formal responsibility for enforcing Decreto Lei No. 86/2003 by Despacho Normativo 35/2003.[24] The PPP Unit

[22]Monteiro, Rui Sousa. Public-Private Partnerships: Some Lessons from Portuguese Experience. January 20, 2005.

[23]Lei de Enquadramento Orçamental, Lei 91/2001, changed and republished by Lei Orgânica 2/2002 and by Lei 48/2004.

[24]A group within Parpública had been advising Portugal's Department of Treasury on PPPs since 2000.

carries out a separate technical assessment of each PPP project (including an assessment of the tender documentation) before the procurement phase and provides its recommendation to the Ministry of Finance. The Unit also provides technical assistance to line ministries at various stages of PPP procurement and management.

Track Record of PPP in Portugal

PPP activity in Portugal has been concentrated in the transport sector but has also included significant activity in the water and wastewater sector, and increasing activity in the healthcare sector.

Portugal's earlier PPPs succeeded in building new infrastructure, but imposed a significant longer-term fiscal burden. In a spring 2003 audit of existing PPPs, Portugal found that its PPP-related liabilities amounted to 10 percent of GDP. The legacy of Portugal's large transport PPPs in the 1990s continues to be felt as a drain on government finances. Portugal met the Eurozone's Stability and Growth Pact targets in 2002 through 2004, but the deficit reached 6 percent of GDP in 2005 and was 4.6 percent in 2006.

The budgetary reform laws do not appear to have slowed PPP activity, but recent PPPs have been better designed. PriceWaterHouseCoopers has estimated that Portugal closed roughly US$10–$12 billion in PPPs during 2004–05, representing 10 percent of all deals closed in Europe.[25] Of its European peers, Portugal has had, by far, the highest PPP activity when measured as a percentage of GDP in Europe.[26] The total value of PPP project investment since 1994 is worth more 120 percent of the country's current GDP, twice the level of the country with the next highest ratio (the UK).

Portugal's PPP program therefore appears to have been successful in improving the affordability and risk transfer of PPPs in recent years. It has also maintained the flow of deals—essential in a country with relatively heavy reliance on PPP to build and operate its infrastructure.

Role of Parpública PPP Unit

There are clear signs that Parpública has played an important role in helping the government -think its approach to PPP. For example, since establishing the PPP Unit, the government has sought to change its approach to PPPs, in order to address some of the fiscal problems created by earlier PPPs. One of the government's responses has been to change the nature of PPP arrangements it considers. In 2004, Portugal's shadow toll obligations stood at roughly €700, representing 0.5 percent of GDP. The government consequently decided to replace shadow tolls with real tolls in highway concessions.

The PPP Unit has, moreover, attempted to rationalize risk allocation in PPP arrangements by encouraging line agencies to break single PPP projects into multiple projects that better align risks, responsibilities, and payments to the actual risks of the PPP. For example, for rail transport PPPs, the service of the infrastructure and the rolling stock are subject to availability risk, but transport services are subject to demand (traffic) risk. The contracting period for transport services can therefore be shorter than the contract for making the network and trains available. Parpública envisions a similar model for hospital services, where a shorter contract is more appropriate for clinical services than for the management of hospital buildings.[27]

[25]Delivering the PPP Promise. PriceWaterHouseCoopers. 2005.

[26]PPP activity is measured in terms of average investment value during 2000-2005.

[27]Monteiro, Rui Sousa. Public-Private Partnerships: Some Lessons from Portugal. EIB Papers. Volume 10, No. 2, 2005.

South Africa Treasury PPP Unit

Regulation 16 of the Public Finance Management Act (PFMA) established South Africa's National Treasury PPP Unit in 2000 as a filter to exclude fiscally irresponsible PPP transactions. The PFMA defined a broad program of fiscal reform, begun in 1997 with greater decentralization of government budgeting and the requirements that government agencies prepare three-year rolling spending plans and seven-year forecasts. During this time, some government agencies began using PPPs as a way to circumvent PFMA's formal budgetary limits.

The PPP Unit's creation was driven primarily by treasury concerns over a specific PPP transaction proposed by the Ministry of Public Works. The Ministry of Public Works intended to procure a 30-year Build Operate Transfer contract for two prisons. Treasury found out about the contract, and asked to review it. Treasury's analysis found that the prisons indeed offered value for money (in the sense of being better value than a public sector alternative), but would be extremely expensive to build, and would likely require resources the Ministry of Public Works did not necessarily have.

Treasury stopped the prison BOT, but feared that doing so could signal to private investors a precedent for arbitrary intervention in PPPs. Treasury sought to establish a clear a set of rules for PPPs in an effort to prevent fiscally irresponsible PPPs while also seeking to maintain investor confidence that a clear set of rules existed for private sector involvement in state enterprises.

Track Record of PPP in South Africa

South Africa's PPP program has seen 13 deals closed since its establishment. Seven of these projects are worth a net present value of US$220 million in annual payments from the public to the private partner for services provided ("unitary charges"). The other five have a net present value of US$80 million in cash, capital works, and operations.[28] These deals included services in the transport, healthcare, IT, and government housing sectors. The PPP Unit closed its most recent transaction in April 2004 (A Social Grant Payment System for Orange Free State). Eight PPP deals were closed before the PPP Unit was created. These projects included two toll road projects, two prisons, and four national parks. Most recently, in February 2007, the PPP Unit saw the successful closure of the Guatrain project, under which a private firm will build and operate an underground train between Pretoria and Johannesburg, and from the Johannesburg airport to the city center.

A considerable amount of private sector investment in state enterprise has taken place without the PPP Unit. The South African Roads Agency signed some of the country's first toll road concessions in 1997, and the success of these PPPs helped, in part, to inspire the creation of the PPP Unit. Other large private sector investments have involved ownership transfer, and have been dominated, in terms of value, by several large transactions in the mobile telecommunications sector. Annual PPI in South Africa has averaged roughly 0.44 percent of GDP since 1984. South Africa ranks 111th out of 124 (developing world) countries for this ratio, and 34th out of 42 countries in the region.[29]

[28]These figures exclude the US$3 billion Gautrain project, of which the private developer's participation is worth roughly US$500 million.

[29]Calculated with data on privatization proceeds from the World Bank Privatization Database (http://rru.worldbank.org/privatization), data on PPI from the World Bank PPI Database (ppi.worldbank.org), and IMF World Economic Outlook Database, September 2006 (http://www.imf.org/external/pubs/ft/weo/2006/02/data/index.aspx).

Role of Treasury PPP Unit

The objectives of South Africa's PPP Unit are perhaps more limited than that of PPP Units elsewhere. These objectives were, primarily, to prevent poorly designed PPPs, and not necessarily to promote PPPs. The PPP Unit does appear to have succeeded in ensuring that those PPPs transactions that proceed are well designed and fiscally responsible.

The PPP Unit's success is owed, at least in part, to the environment that existed to support it, specifically:

- The PPP Unit was launched as part of a package of fiscal reforms that made explicit the treasury's role in approving government agencies' budget decisions on PPPs. Legally, municipal and federal agencies can launch feasibility studies and begin soliciting investor interest without consulting the PPP Unit. In practice, however, most agencies seek the Unit's advice at the inception of a PPP idea, and investors will pay an idea little attention unless they know the PPP Unit is involved.
- The PPP Unit was located within the treasury. The PPP Unit's formal role is advisory only. However, in practice, the Unit has tremendous influence and credibility, and therefore effectively has the last word on PPP projects. The Unit's location within the treasury also means that it has had access, from its inception, to a set of skills well suited to evaluating the long-term fiscal consequences of PPPs and procuring private partners.

The treasury PPP Unit has been criticized by some observers for being too restrictive, either directly or tacitly preventing good PPPs. A related criticism is that the PPP program has focused only on the "easy" PPPs, implementing what amount to glorified service contracts that are not as ambitious as they could be in terms of transferring responsibilities to the private sector, nor in addressing South Africa's most dire infrastructure needs, many of which are in the municipalities.

Partnerships UK and Treasury Taskforce, United Kingdom

The government of the United Kingdom has been running an active PPP program since 1996. The Private Finance Initiative (PFI) is used in a variety of infrastructure sectors including accommodation, education, environment, defense, equipment, health service, housing, and transport. The projects are procured using regulated Design Build Finance Operate (DBFO) bids.

The PFI was originally seen as a "financial force multiplier." Under John Major's Conservative government it was a way to control the government debt by keeping liabilities off the government balance sheet.

Tony Blair's New Labour government changed the focus from off-balance sheet financing to value for money through private sector innovation and efficiency. It also rebranded the program as "Partnerships UK," though the term PFI is still used. All proposals are compared to a "public sector comparator," which estimates the total risk-adjusted cost of carrying out the project in the public sector. Only those that can be done more cheaply in the private sector are implemented.

The UK has separate PPP policy and project development agencies. The project development agency, Partnerships UK, advises government agencies on PPP projects and finances itself by charging fees to the public sector. The policy taskforce sits within treasury and sets guidance on procurement, deal structuring, and evaluation. Individual line ministries also typically have their own project development teams.

All PFI transactions must be given treasury approval at several stages before final contract signature. Both Partnerships UK and The treasury have responsibility for national and local PFI.

Track Record of PPP in the UK

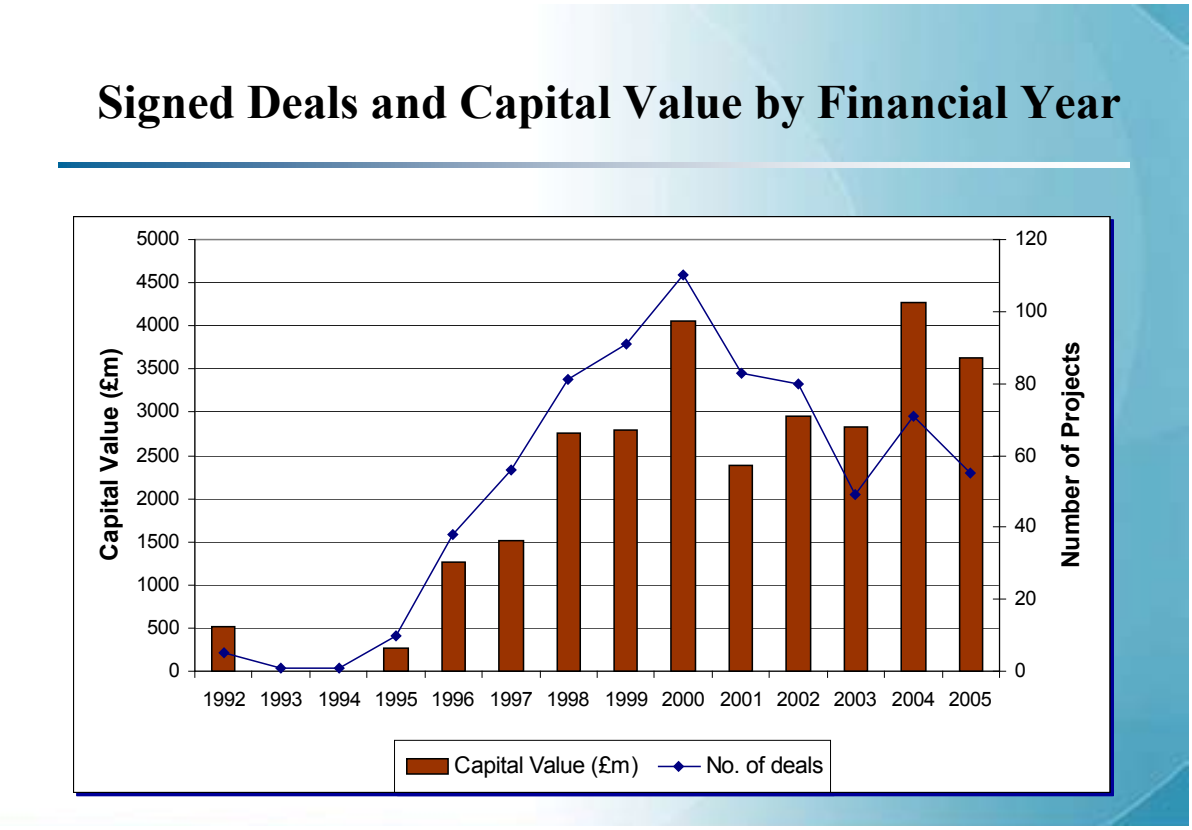
Roughly 700 projects have reached financial close since 1996, worth US$80 billion in capital. This total is equivalent to roughly US$8 billion per year in new projects, or roughly 0.4 percent of the UK's average GDP during the same time period. The PFI program contributed 10 percent of total UK investment in public services in 2004.

The UK's PFI activity during the period 1994–2005 represents roughly two-thirds of all activity in Europe.[30]

PFI projects are also more efficiently implemented than publicly procured projects. An average of 80 percent of PFI projects were delivered on time and on budget compared to average of 30 percent for publicly procured projects.

The PFI system has also been successful in providing value for money insofar as each PFI

Figure 5.1
Signed Deals and Capital Value by Financial Year



Source: Presentation by Ed Farquarson of Partnerships UK, 22 March 2006 at the World Bank.

[30] *Delivering the PPP Promise.* PriceWaterHouseCoopers. 2005.

project must compare favorably against a public sector comparator.

The primary criticisms raised about the UK's PFI program in general are:

- The time to close contracts can be lengthy (the average time to close deals is slower in the UK than in Portugal), and the negotiation process costly.
- Deal flow has slowed recently, but many recognize this is the result of a maturing market for PPPs.

Despite these criticisms, the program indeed appears to have been successful in increasing the volume of high quality transactions that, by nature of the selection process, provide value for money and appropriate risk transfer.

Role of Partnerships UK and the Treasury Taskforce

Figure 5.1 offers a clear picture of how PPP activity has increased since the beginning of the UK's PFI program in 1996 and the creation of Partnerships UK.

Partnerships UK and the treasury taskforce are been central to the program and can therefore be credited with its success.

Partnerships Victoria, Australia

The government of the State of Victoria in Australia has had a PPP program since the 1980s. Victoria is Australia's second largest state by population and size of its economy.

As in the UK and Portugal, early PPPs were intended to push government expenditure off the books. Under the Kennet government in the 1990s the focus moved toward transferring maximal risk to the private sector, and reducing costs to government. The successful Citylink toll road was implemented under the Kennet government.

In 1999 Labour was returned to power in Victoria, under Premier Steve Bracks. The Bracks government followed the lead of New Labour in the UK, introducing "Partnerships Victoria," an adaptation and expansion of the previous PPP program. The focus is on optimal risk transfer, maximizing efficiency, and minimizing whole-life costs.

A team within Victoria's treasury is responsible for implementing the policy.

Track Record of PPPs in Victoria

A recent speech by Victoria's treasurer claimed, "Australia is now the second most developed PPP market in the world" after the UK.[31]

Partnerships Victoria (PV) projects include a major new toll road, the redevelopment of Spencer Street Station in Melbourne, redevelopment of the Melbourne Showgrounds, a new convention center, a major new court building, and a number of water treatment works and accommodation projects.

PPPs average roughly 10 percent of Victoria's annual capital asset investment, ranging from 5 percent to 20 percent in any particular year.

A 2003 review of PV projects found that PV-procured projects were of higher quality than projects procured through traditional means, specifically:

- Average savings to Victoria through private sector infrastructure delivery were 9 percent when compared to public sector delivery.
- Seventy-three percent of line agency construction projects had run over budget. Only 22 percent of PPPs had run over budget.[32]

[31]"A national approach to PPPs. The importance of creating a 'single market' appearance to gain global attention: Australia's experience." PPP 2005 Conference. Monday 28 November 2005. Toronto, Ontario, Canada.

[32]Ibid.

Role of Partnerships Victoria

The PV policy has succeeded in fostering successful PPPs. Because the policy, and the team that implements the policy, are effectively one and the same, the treasury team has undoubtedly been responsible for this success. In general, the State of Victoria has a highly effective government, and the marginal contribution of PV, compared to the alternative of acting within a formally constituted Unit, has probably been quite small. The formal creation of the Unit has allowed PPP rules to be systematized, and has created a permanent institutional champion for PPPs within the government. In effect, this has helped to somewhat depoliticize the PPP process.

The PPP Unit has identified some areas where work is needed. The current work program includes:

- An effort to reduce bid costs (by ensuring there is enough competition)
- An effort (by looking studying PFI in the UK) to achieve better financing outcomes for the government)
- Looking at payment arrangements and output specifications, especially the issue of abatement for nonperformance.

Finally, it has been noted that the treasury has a great deal of knowledge and experience in upfront design of contracts but less knowledge and experience managing contracts.

Public and Private Infrastructure Investment Management Center (PIMAC), Republic of Korea

Private companies have been investing in transport infrastructure in Korea since the late 1990s. Since the late 1960s, the government relied on private investment to build and expand some expressways, but did not allow private firms to operate or manage the infrastructure.

In 1994, PPP was first introduced in Korea with the "Promotion of Private Capital into Social Overhead Capital Investment Act." The Act sought to establish clear policies and procedures for PPI in all sectors, and extended the possible role of the private sector to one that included operation and management of infrastructure.

Under the new Act, 21 national projects and 13 local government infrastructure projects were launched. Some observers have noted that progress in developing some of these projects proved slower than expected. The slow progress of PPI during those years has been attributed to a lack of transparency, excessively complicated procedures, insufficient incentives for the private sector, and unattractive risk sharing arrangements.[33]

The 1997 East Asian Financial Crisis lowered the private sector's appetite for PPI in Korea, and made it increasingly difficult for government agencies to pay for infrastructure from their own budgets. The government therefore tried to accelerate PPI in December 1998 with the Act on Private Participation in Infrastructure. Changes implemented by the new Act included:[34]

- Expansion of the types of PPI allowed. The 1994 Act had allowed for Build-Transfer-Operate and Build-Own-Operate only. The 1999 Act allowed for BOT contracts, and allowed the government to consider unsolicited proposals as well as those projects the government had already planned.
- Creation of the Private Infrastructure Investment Center of Korea (PICKO) to:
  - Provide technical assistance to government agencies and the private sector. The creation of

[33]Hahm, Junglim. "Private Participation in the Infrastructure Program of the Republic of Korea". *Transport and Communications Bulletin for Asia and the Pacific*. No. 72, 2003. pp. 57-75.

[34]For other changes imposed by the Act, readers should see Appendix A, Section A.8.

PICKO responded in part to a perceived need that the government agencies were lacking expertise in PPI evaluation and development

- Promote infrastructure projects and educate the private sector about PPI in Korea
- Review unsolicited proposals as requested by line agencies
- Review feasibility studies and bidding documents
- Conduct VfM tests
- Assist in proposal evaluation and negotiation of agreements
- Assist in formulation of government policy on PPI.

PICKO was a member of the Private Investment Project Committee under the Ministry of Planning and Budget. The committee also includes members from the line agency for the sector in which the PPI will take place. The committee has primary responsibility for selecting projects, evaluating proposals, and negotiating agreements. The committee is also responsible for drafting the Annual Plan for PPI, which establishes the country's infrastructure priorities.

A 2005 amendment to the Act on the Private Participation in Infrastructure further broadened the scope of Korea's program to include Build-Transfer-Lease (BTL) schemes and introduced VfM tests. The Public and Private Infrastructure Investment Management Center (PIMAC) was established as a merger of the Private Investment Center of Korea (PICKO) and the Public Investment Management Center (PIMAC) by the amendment of the Act on PPI in January 2005. The PIMAC is an affiliated body of the Korea Development Institute (KDI), which is a leading government research institute.[35]

The multiple roles now played by PIMAC can be classified into three categories:

- Researcher: PIMAC formulates the annual PPI plans and conducts both theoretical and practical studies on PPI.
- Policy Advisor and Project Manager: PIMAC develops PPI projects, reviews and executes feasibility studies of PPI projects, executes VfM tests, supports formulation of RfPs, and assists in tendering and negotiation.
- PIMAC consults with foreign investors and helps attract foreign capital to the Korean PPI market. PIMAC also develops and promotes education programs on PPIs.

Track Record of PPP in Republic of Korea

Korea's PPI program was introduced in August 1994, but hit its stride in January 1999. As of August 2006, 154 projects had been carried out under BTO, BOT, or BOO schemes. Of those projects, 64 are under operation, 50 are under construction, 18 are preparing for construction, 15 are under negotiation, and 7 are under review. One hundred thirty-one BTO projects have been awarded concession agreements. These projects have total investment costs amounting to roughly US$41.4 billion. Also, 106 BTL schemes, first introduced in 2005, are in the pipeline as of August 2006. These projects are worth roughly US$6 billion.

Private sector investment in infrastructure has risen considerably since 1998, from roughly US$500 million to US$2.8 billion in 2005. As the government's expenditure on infrastructure has increased during this period, the government's share of total infrastructure investment has decreased from 95 percent to 86 percent.[36]

[35]PIMAC was founded under KDI in January 2000, to focus on research and management of public investment projects.

[36]"Korea's PPI System and Key Policy Issues". Presentation by Dr. Young-Geun Lee, Director General for PPI, Ministry of Planning and Budget, Republic of Korea. 2006.

The government appears to have successfully understood the shortcomings of the PPI program between 1994 and 1999, and tried to address those problems.

Role of PIMAC

As described above, PPI activity in Korea has picked up considerably since the government created PICKO, PIMAC's predecessor, in 1999. PIMAC appears to have met the objectives established for it. Through its role in the Private Investment Project Committee, PIMAC has proven an essential player in the evaluation of feasibility studies and bids. Line agencies rely on it for assistance in tender preparation, evaluation, and negotiation of contracts. In only one instances (a politically motivated bridge project) has a project gone ahead despite PIMAC's objection.

Documentation of the PPP program and tender process, much of which has been prepared by PIMAC, receives high marks from public finance experts. Fitch Ratings said in a recent report, "The level of documentation at the concession agreement level is sophisticated by global standards. More impressively, the level of recognition and cross-reference between concession and financing documents is very strong."[37]

There are also signs that Korea has been attentive to the quality, and not just quantity of PPI agreements. The 2005 revisions to the PPI Act scaled back minimum revenue guarantees that had been offered for many projects, and abolished such guarantees completely for unsolicited projects, and made clearer the currency risk sharing arrangements.[38] The Ministry of Planning & Budget has said it intends to place increased emphasis on monitoring the performance of existing PPI projects for their macro- and microeconomic impact, and using those lessons to drive further changes in the PPI strategy.

It remains to be seen how PIMAC will fare in its new location under the Korean Development Institute, but initial assessments by those familiar with PIMAC feel the change has given the PPP Unit more independence from the line agency proponents of PPI projects.

Conclusions from the Case Studies

As defined in Section 2.3, a successful PPP Unit is one that contributed to the implementation of a successful PPP program.

The PPP Units surveyed were all established with the aim of correcting at least two of the government failures identified in Section 4.2. Not all of the Units surveyed achieved the objectives they set for themselves, nor were their objectives always clear from the outset. Table 5.1 shows whether the PPP Units fulfilled all of the functions intended for them to correct government failures.

Table 5.2 summarizes whether, and for what reasons each country's PPP program was determined to be a success, and whether the PPP Unit fulfilled all of the functions we think necessary to correct government failures.

[37]"Korea's Infrastructure Finance Program: Partnerships at Work". Fitch Ratings Project Finance Special Report. November 1 2005.

[38]Since January 2006, MRGs are applicable only to solicited projects. For the first 5 years, 75 percent of revenues are guaranteed and for another 5 years, 67% are guaranteed. For unsolicited projects or projects that earn less than 50 percent of projected revenue, MRGs are no longer applicable.

Table 5.1
Did PPP Units Achieve their Objectives

Function / Jurisdiction	Policy formulation and coordination	Quality control	Technical assistance	Promote/ market PPPs	Standardization and dissemination
Bangladesh	✗	—	✓	✗	—
Jamaica	—	✗	—	✓	—
Portugal	✓	✓	✓	—	—
South Africa	✓	✓	✓	—	✓
Republic of Korea	✓	○	✓	✓	✓
The Philippines	✗	✗	✓	○	✗
UK	✓	✓	✓	✓	✓
Victoria	✓	✓	✓	✓	✓

Key: ✓= intended function, and effective; X= intended function, but ineffective; ○= intended function, but effectiveness unclear; — = not an intended function

Table 5.2
Summary of Success or Failure of PPP Units

Jurisdiction and Unit	PPP Program Successful?	PPP Program Successful in Country Context?	PPP Unit's Objectives	Met those Objectives?	Any functions necessary for solving government PPP failure?
Bangladesh, IIFC	Little success. Far fewer, and lower quality PPPs than needed	**Little success**. Haripur and Megnaghat show that transparent, quality PPPs are possible, but quality has worsened since	▪ Advise line ministries and other government agencies in identifying and prioritizing potential infrastructure projects for tender, assisting with evaluation, award, negotiation, and implementation of projects ▪ Promote private sector participation in infrastructure in Bangladesh by working with the private sector and serving as a clearinghouse of expertise on public private partnerships	Little apparent effect on private participation in infrastructure in Bangladesh	**None to few**: ▪ Technical assistance ▪ Policy formulation, but no authority to implement
Jamaica, NIBJ	Little success. Lots of PPP activity but low quality	**Little success**, given Jamaica's high public debt. PPPs have worsened the situation	▪ Secure greater efficiency ▪ Reduce fiscal drain ▪ Optimize government's management resources ▪ Secure enhanced access to foreign markets, technology and capital ▪ Broaden the base of ownership in the society.	No, especially not the reduction in fiscal drain	**None to few**. Managed some transactions, and attempted coordination, but generally ineffective as real power was never effectively delegated
Portugal, Parpública PPP Unit	Some success. There is still a large debt overhang from expensive PPPs done in the 1990s	**Much success.** Portugal has a much greater need than other EU members to do PPPs, and has since corrected problems with its earlier program	Generally, to help the government to do better job structuring higher-quality PPPs than in the past	Yes	**Some**: ▪ Policy formulation ▪ Technical assistance ▪ Quality control
South Africa,	Much success	**Much success**,	Filter out fiscally irresponsible PPPs while creating a	Yes but with less than	**Some**:

continued

Treasury PPP Unit		despite some concerns about low deal flow and lack of deals which address South Africa's true infrastructure needs	structure for PPPs that would re-assure private investors despite it being a fine filter	the expected impact on infrastructure deals	▪ Technical assistance ▪ Quality control ▪ Policy formulation
Republic of Korea, PIMAC	Much success	**Much success**, given Korea's budgetary constraints and infrastructure needs	▪ Provide technical assistance to government agencies and the private sector. The creation of PICKO (PIMAC's predecessor) responded in part to a perceived need that the government agencies were lacking expertise in PPI evaluation and development ▪ Promote infrastructure projects and educate the private sector about PPI in Korea ▪ Review unsolicited proposals as requested by line agencies ▪ Review feasibility studies and bidding documents ▪ Conduct Value for Money tests ▪ Assist in proposal evaluation and negotiation of agreements ▪ Assist in formulation of government policy on PPI.	Yes	**Most to all**: ▪ Technical assistance ▪ Quality control ▪ Policy formulation ▪ Promotion/marketing
The Philippines,BOT Centre	Some success. Considerable volume but inconsistent quality of	**Some success**, given the country's infrastructure needs.	Technical assistance, PPP promotion/marketing, and monitoring	▪ Yes, but not for all PPPs. ▪ The BOT Centre has only done very little monitoring, and on an ad hoc basis.	**Few to none**: BOT Centre was assigned many functions but really only effective in its technical assistance role

continued

Table 5.2 continued
Summary of Success or Failure of PPP Units

Jurisdiction and Unit	PPP Program Successful?	PPP Program Successful in Country Context?	PPP Unit's Objectives	Met those Objectives?	Any functions necessary for solving government PPP failure?
	PPPs. IPPs, in particular, left significant contingent liabilities				
UK, Partnerships UK and Treasury Taskforce	Much success	**Much success**	Generally, to improve the quality of PPPs and shift focus away from financing infrastructure to VfM and risk allocation	Yes	**Most to all**: ▪ Technical assistance ▪ Quality control ▪ Policy formulation ▪ Promotion/marketing
Victoria, Australia, Partnerships Victoria	Much success. The quality of PPPs has improved since the new PV policy has come into existence.	**Much success**	Generally, to improve the quality of PPPs in infrastructure. Ensuring that PPPs provide for optimal risk transfer, maximizing efficiency, and minimizing whole life costs	Yes	**Most to all:** ▪ Technical assistance ▪ Quality control ▪ Policy formulation ▪ Promotion/marketing

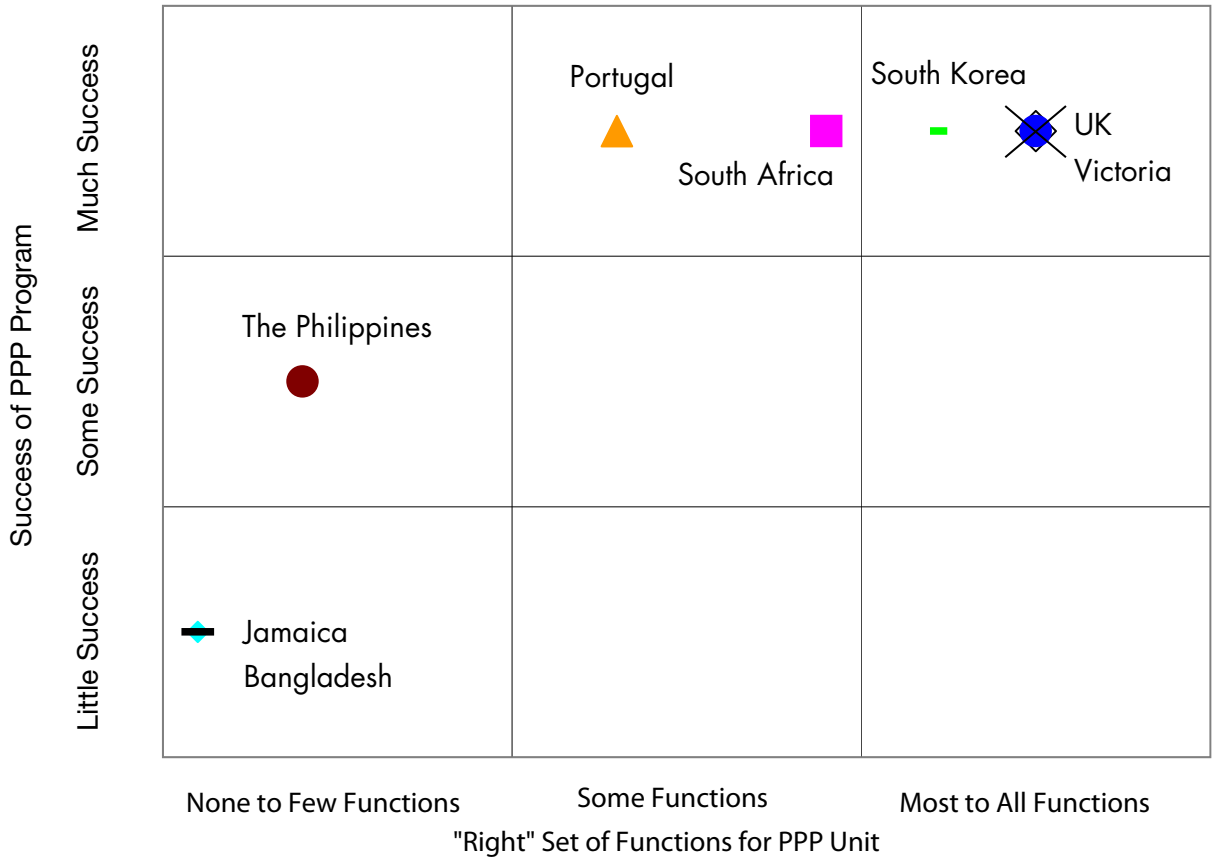
The results from Table 5.2 are used to plot Figure 5.2. The figure shows a positive correlation between the success of a PPP program, and the functions a first principles-based analysis suggests a PPP Unit should undertake.

Figure 5.2 shows how the functions identified correlate with the success of PPP programs. The vertical axis rates the success of each country's PPP program during the time in which the PPP Unit existed, as having "Little Success," "Some Success," or "Much Success." The horizontal axis identifies how many functions the PPP Unit fulfilled, from the list of five functions identified in Section 4 as the right set of functions for a PPP Unit.

The assessment of each PPP Unit's placement on either axis is necessarily qualitative. Figure 5.2 is not meant to be precise, but is meant to guide the discussion of the differences between PPP Units and PPP programs.

Correlation does not, of course, mean causation, but the case studies provide at least anecdotal support for the effect each PPP Unit had on the PPP program within its jurisdiction. To summarize from the case studies:

Figure 5.2
Correlation of Success with Functions



- Much PPP activity in Bangladesh has happened without IIFC's involvement, suggesting that IIFC has not had much impact on the overall level or quality of PPPs in that country.
- NIBJ was the principal driver of Jamaica's privatization program and therefore had considerable influence over Jamaica's PPP program, though it ultimately answered to the Cabinet, a political body.
- Like IIFC in Bangladesh, significant PPPs in the Philippines have happened without the BOT Centre's involvement in recent years. The power sector PPPs in which the BOT Centre was directly involved in the 1990s were of variable quality and have left the Philippines with significant PPP-related liabilities.
- The Parpública PPP Unit is the principal driver of PPP policy, and has close links to the treasury, which has driven the fiscal reform process in Portugal since 1999. Parpública has had much to do with improving the affordability and value for money in Portugal's PPPs while allowing the deal flow to remain relatively high.
- The treasury PPP Unit is central to the PPP development process in South Africa. The PPP development process requires extensive PPP Unit involvement, including treasury approvals at four stages before to contract signature. Though the PPP Unit has been criticized as too restrictive, it was created with the inherently restrictive goal to ensure that PPPs happen, but not as a way of avoiding budgetary constraints. The PPP Unit's regulations, PPP manual, and many of its completed transaction, are referenced as good practice examples outside of South Africa.
- Partnerships UK and Partnerships Victoria are central to the PPP programs in the UK and Victoria, two of the largest markets for PPPs in the world.
- PIMAC is an essential player in the evaluation of feasibility studies and bids. PPI activity in Korea has picked up considerably since the government created PICKO (PIMAC's predecessor) in 1999.

Section 6 explores some of the reasons for the positive correlation observed in Figure 5.2, and draw general lessons about PPP Unit design from the case studies. As the discussion in Section 6 will show, the success of a PPP Unit in advancing a PPP program depends heavily on the broader conditions of political support and government effectiveness present in the PPP Unit's jurisdiction.

6 Generalizing the Lessons Learned

This section explores some of the reasons for the positive correlation observed in Figure 5.2, and what those reasons tell us about PPP Unit design.

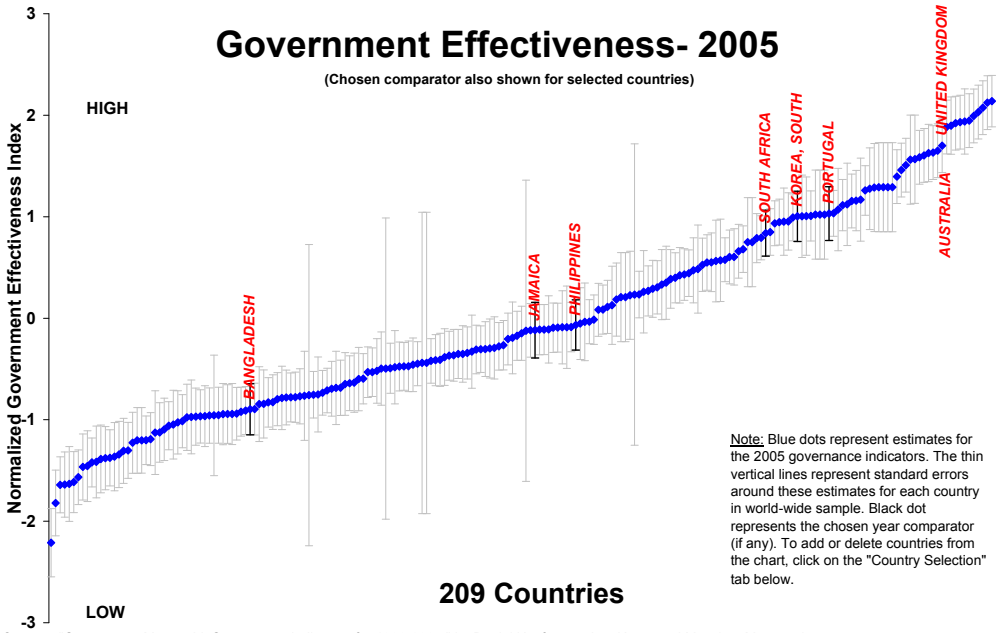
It is important to first look at how a government could decide whether or not a PPP Unit would be effective. In some cases, governments may have problems that PPP Units cannot solve. Section 1.1 mentioned the possible similarities between lessons about PPP Unit design and the design of regulatory regimes for infrastructure. Continuing with that comparison, it makes little sense to think about how to staff a regulatory office, before first asking whether independent regulation is truly the best approach. In the same way, the first questions to ask in designing a PPP Unit are: what are the problems the government would currently face in implementing a PPP program, and would a PPP Unit be likely to solve those problems?

When PPP Units May Be Ineffective

Figure 5.2 showed that three countries—Jamaica, Bangladesh, and the Philippines—had PPP Units whose performance fell far short of their objectives. This is an important observation. There should be no assumption that a PPP Unit will perform well, simply because it is created with good intentions. What lessons can we learn from these poorly performing Units?

The first observation is that the Units that were least effective are located in countries whose governments are judged less effective, compared to the other countries in the sample, as Figure 6.1 illustrates.[39]

Figure 6.1
World Bank Government Effectiveness Indicator



Source: "Governance Matters V: Governance Indicators for 1996-2005 " by Daniel Kaufmann, Aart Kraay and Massimo Mastruzzi.
Disclaimer: The governance indicators presented here reflect the statistical compilation of responses on the quality of governance given by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries, as reported by a number of survey institutes, think tanks, non-governmental organizations, and international organizations. The aggregate indicators in no way reflect the official position of the World Bank, its Executive Directors, or the countries they represent. As discussed in detail in the accompanying papers, countries' relative positions on these indicators are subject to margins of error that are clearly indicated. Consequently, precise country rankings should not be inferred from this data.

Source: World Bank

[39]Data from Kauffman, Kraay and Mastruzzi 2006.

This should be no surprise. In countries where most government institutions perform poorly, it is likely that any new government institution will perform poorly also. However obvious, the conclusion provides a useful reminder of what policy makers should consider first when deciding whether or not to create a PPP Unit.

Often advisors and governments, frustrated with the underperformance of existing institutions, create new institutions that they hope will perform better. It is tempting to overlook the fact that the very reasons that made the existing institutions underperform may well undermine the new institutions also. If a government wants to develop a PPP program and finds that its existing institutions do not seem up to the job, it should consciously and realistically weigh whether a new institution is likely to do any better. There is always the alternative of trying to fix existing institutions, or expanding the mandate of any institution in which the government already has confidence.

In addition to the general point about the difficulty of creating effective Units within relatively ineffective governments, a more detailed consideration of the experience of the three underperforming PPP Units yields three general lessons. PPP Units will tend to struggle when:

- Top politicians do not support the PPP program
- Procurement of infrastructure and capital works is not transparent and competitive
- The machinery of government is chronically uncoordinated.

Each circumstance is discussed below.

Lack of High-Level Commitment to Quality PPP Program

PPP Units in the Philippines, Bangladesh, and Jamaica all suffered from a lack of political commitment. Specifically:

- NIBJ lacked political support for its efforts to introduce PPP. Where PPPs were introduced the government was determined to retain political control of the process by putting it under the charge of competent, trusted, senior party loyalists. Cabinet ministers—many of whom had been members of Michael Manley's socialist-leaning government in the 1970s—were inherently suspicious of the private sector, and predisposed to economic nationalist strategies. NIBJ staff efforts were often undermined by political vacillations, and detailed ministerial and party control of the process.
- The Philippines BOT Centre was at its most effective when it was part of a president's initiative to solve a specific problem in the power sector by attracting IPPs. The Unit's effectiveness has declined considerably, despite a broader set of responsibilities under the BOT law, since the urgency of the power crisis has passed and the Unit has been moved from a position directly under the President's Office to the Department of Trade and Industry. In essence, the Philippines government has a PPP Unit, but it has no PPP strategy.
- IIFC in Bangladesh has only token influence at the executive level. IIFC provides technical assistance to a Private Infrastructure Committee (PICOM), which sits in the Prime Minister's office, through representation in a relatively weak government board. Private sector investment in infrastructuremostly goes on around it.

In contrast, Partnerships Victoria and Partnerships UK have worked well because they had high level political support. Both Partnerships Victoria and Partnerships UK were created in their current forms by Labor governments elected in reaction to right-of-center governments that had pursued aggressive privatization campaigns. Factions in the Labor cabinets opposed further private participation, but other, centrist factions, including senior ministers,

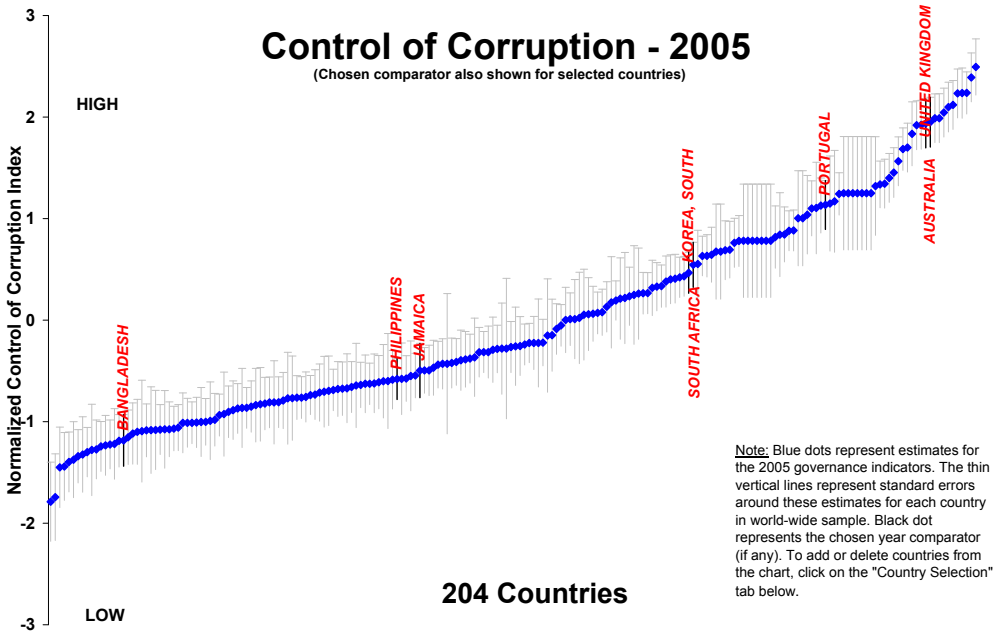
supported the concept of public private partnerships. These PPP Units were created because of this political backing, and in turn strengthened the hand of the centrist factions by delivering results, because of their competence, and ability to coordinate. These Units would not have been able to attract competent staff and coordinate other agencies, had they not enjoyed political support.

Lack of Transparency and Competition in Procurement of Capital Works

Bangladesh and Jamaica have seen their PPP programs suffer from lack of transparency in procurement.

The attempted privatization in 1996 of Jamaica Public Service, the state-owned electricity company, was similarly protracted, yet nontransparent. Two bids were received, and as a World Bank report Implementation Completion Report describes, "Bid opening was followed by 10 months of discussion with the two bidders in which elements other than price were considered. Finally, when it appeared that discussions had been completed and a firm selected… word leaked out that the lower-price bidder was being recommended as the winner. This resulted in an outcry from the political opposition and the press…"[40] JPS was left in the hands of government managers, and finally privatized in 2001. During those five years, largely because of poor government management, capacity margins fell to 9 percent, from 26 percent, service quality deteriorated, and JPS' cash surpluses dwindled. The government sold 80 percent of the utility for roughly US$200 million, but effectively earned no proceeds because of the sale agreement that was negotiated which provided for government to absorb the approximately US$200 million in accumulated sector debt, largely to multilateral financial institutions, that was left on JPS' books.

Figure 6.2
World Bank Control of Corruption Indicators



Source: "Governance Matters V: Governance Indicators for 1996-2005 " by Daniel Kaufmann, Aart Kraay and Massimo Mastruzzi.
Disclaimer: The governance indicators presented here reflect the statistical compilation of responses on the quality of governance given by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries, as reported by a number of survey institutes, think tanks, non-governmental organizations, and international organizations. The aggregate indicators in no way reflect the official position of the World Bank, its Executive Directors, or the countries they represent. As discussed in detail in the accompanying papers, countries' relative positions on these indicators are subject to margins of error that are clearly indicated. Consequently, precise country rankings should not be inferred from this data.

Source: World Bank 2006 Governance and Anti-Corruption Indicators

A lack of transparency in procurement, or a lack of competition in procurement do not necessarily signal corruption, but can, in general, raise public suspicions of corruption. At the very least, competitive and transparent procurement generally make corrupt practices more difficult.

Figure 6.2 shows the World Bank's ranking of control of corruption for the countries in which the sample PPP Units are located.[41] This index does not relate specifically to procurement of capital works, but is nevertheless useful in understanding the challenges PPP Units in some countries face.

If there is widespread corruption in procurement of infrastructure and capital works, a PPP Unit will not necessarily be able to change the situation. The same factors that corrupt other government organizations may either corrupt the PPP Unit, or at least ensure that decisions are routed around the Unit.

Lack of Coordination in the Machinery of Government

PPP programs are ineffective where the PPP Unit is just one of many responsible agencies. If government functions are not well coordinated, a PPP Unit—even one with executive powers—may not be able to stop poor quality PPPs because the Unit may not receive all of the information it needs to make an informed decision, or may be unable to overrule other agencies. Similarly, such a Unit may not be effective in promoting PPPs, if other agencies are not willing to cede control of "their" projects. There is a real risk that creating a PPP Unit in these circumstances will increase the coordination problem, rather than reduce it, creating an additional hurdle that PPP transactions must clear.

In several recent transactions in the Philippines the BOT Centre was not involved in promoting or structuring the project, but its approval was required at the end. The BOT Centre reviewed the projects, creating delay and risk without adding much value. It was certainly not able to win support from other government agencies involved, seeing its role more as a gatekeeper than anything else. Similarly, the BOT Centre has the formal role of monitor ongoing PPP contracts, but that monitoring function is poorly defined vis-à-vis the implementing agencies. The BOT Centre monitors ongoing PPP agreements on an ad hoc basis only, unsure of what role the implementing agencies play. The end result is relatively weak PPP contract monitoring within the Philippines government.

If nothing else, having multiple agencies with parallel responsibilities raises transactions costs because it proves confusing for investors, can create cost redundancies within government, and may mean government agencies are working at odds to one another.

Can PPP Units Work Even with These Problems?

It might be tempting to think that with good design a PPP Unit would work even without political support, or within a poorly coordinated government. However, efforts to "work around" the endemic problems described above would likely fail. For example:

- Where a PPP Unit lacks firm political commitment, it could conceivably be given executive powers that prevent other agencies from overruling it, but who would be willing or able to grant these powers? Alternatively, a PPP Unit without strong political backing might also try to prevail through force of analysis and persuasion, but what are the chances of it being able to recruit the top analysts, or get access to the right decision makers, when senior politicians do not support it? PPP Units in the Philippines and Bangladesh are recognized as centers of technical expertise,

[41]We also acknowledge that the quality of governance in Victoria may indeed be somewhat different from the quality of governance in Australia as a whole

but this expertise has not been enough to consistently bring the line ministries to seek the PPP Unit's involvement. Where line ministries have the option, they may only involve the PPP Unit when they want to unload a PPP in which they have little interest (as some observers have suggested has been the case in Bangladesh), or when the contracts fail (as has been the case in the Philippines).

- Where corruption is a problem in a country, the Unit can be isolated, to some extent, from the pressures of corruption, but doing so risks make the Unit irrelevant, as implementing agencies will try to find ways to avoid working with the PPP Unit.
- If a government has not been able to coordinate its policies and agencies to date, it will most likely not be able to arrange itself in such as way as to give a new Unit a rational, coordinating role.

Of the three points, the most fundamental seems to be political support. With genuine support from leading members of the political executive, it is possible that a PPP Unit could work well, procure PPPs competitively and transparently, and achieve coordination of the PPP program even in unfavorable circumstances. But without such support a PPP Unit will likely fail, and even with such support, it is not a given that it can succeed in making a corrupt administration clean, or coordinating an uncoordinated one.

Lessons from Theory and Practice for PPP Unit Design

PPP Units have tended to work well where a government has identified a specific problem or objective, and had political willingness to back it. PPP Units in Portugal, South Africa, the UK, and Victoria were created this way. All had different objectives, but because the Units were designed with those objectives in mind, were backed by political support, and were placed within a system with adequate coordination mechanisms, enforcement power, and clear decision-making processes, they worked well.

To continue with the metaphor from Section 4, policy makers need first to diagnose the disease and, having done that, ask whether a PPP Unit will be an effective medicine. This means avoiding the temptation to devote resources to a "miracle pill" when more difficult, longer-term therapy may be really be necessary.

Once policy makers have defined their PPP-related problems, and determined that a PPP Unit may indeed be a good solution to those problems, they should begin thinking about the context for the PPP Unit, its roles and responsibilities. Thinking about roles and responsibilities begins with the following questions:

- Why the government wants to do PPPs, and what it expects from those PPPs
- What functions the government thinks are necessary to achieve these goals
- What existing capacity the government has to fulfill these functions and whether, in particular, existing entities can fulfill some of the roles themselves
- How an additional institution like a PPP Unit could be most useful and what weaknesses in existing capacity the institution would need to address in order to meet the government's PPP objectives. The assessment of weaknesses—what we have called government failures—should drive thinking about what the PPP Units will do.

After this diagnostic phase, three of the most important design questions will be:

- The PPP Unit's responsibilities

- Its level of decision-making power
- Its appropriate location within government.

Responsibilities of the PPP Unit

Despite the fact that the PPP Units we found to be most successful were those that fulfilled the most functions, we do not believe that *all* functions related to PPP procurement need reside within a single PPP Unit. In the UK, there is now a separate PPP taskforce as part of Treasury, and a technical assistance/project development body, Partnerships UK. Some of the individual line ministries in the UK also have their own project development teams. When responsibilities are divided amongst agencies, it is most important that the lines of responsibility are formalized and clear to public and private partners alike.

A PPP Unit's responsibilities should be determined by the government failures identified in each country. If no existing government agency is well suited to correct those failures, responsibility for correcting them should fall to the PPP Unit. In Republic of Korea, for example, the slow progress of PPI between 1994 and 1998 was attributed to a lack of transparency, insufficient line agency expertise in PPP procurement and development, excessively complicated procedures, and insufficient incentives for the private sector. PICKO was created specifically to address those problems by providing technical support, assisting in proposal evaluation and negotiation, promoting and educating the private sector about PPP in Korea, and standardizing procedures and guidelines for PPPs.

In thinking about the responsibilities of PPP Units, the questions introduced at the beginning of Section 6.2 should also be used in thinking about the geographical scope for the PPP Unit's responsibilities. The decision for whether to give the PPP Unit responsibility for provincial and municipal PPPs will be driven in part by a country's laws and form of government, but should also be driven by an assessment of whether the provinces and municipalities suffer from similar or different weaknesses than in national government. South Africa learned over time that municipal PPPs were also in need of quality assurance, and municipal officials in need of technical assistance. The treasury PPP Unit's responsibilities were therefore extended to the municipal level in 2003.

If the central government is funding most of state and municipal budgets (as is the case in South Africa), it makes sense for the PPP Unit to have a quality control and technical assistance functions in relation to subsovereign PPP transactions, unless states and municipalities are known to have institutions that serve this purpose. There will be, of course, a tradeoff in terms of administrative costs. More responsibility for state and municipal PPPs means the PPP Unit will need more resources to do more work. For this reason, PPP Units with subsovereign responsibilities, such as those in Republic of Korea and the Philippines, will consider PPPs with values above a certain threshold. In the Philippines, for example, municipal projects worth less than 200 million Philippines Pesos do not require approval at the national level.

Authority of PPP Units

This paper recommends that designers of PPP Units should think hard about what sort of authority the PPP Unit will need in order to complete its objectives. The authority must match what the PPP Unit is expected to achieve. If the PPP Unit is expected to have a quality control or quality assurance function, for example, that Unit needs some sort of authority that allows it to put a stop to, or alter, planned PPP agreements it feels are not well designed.

Often, the easiest way to grant authority to a PPP Unit is by association, by attaching the Unit directly to an existing government body that has the authority to

stop or alter planned PPP agreements. South Africa, Victoria, and the UK have done this. Section 6.2.3 discusses considerations about PPP Unit location. PPP Units in the Philippines and Bangladesh, in contrast, have been created as quasi-independent PPP bodies.

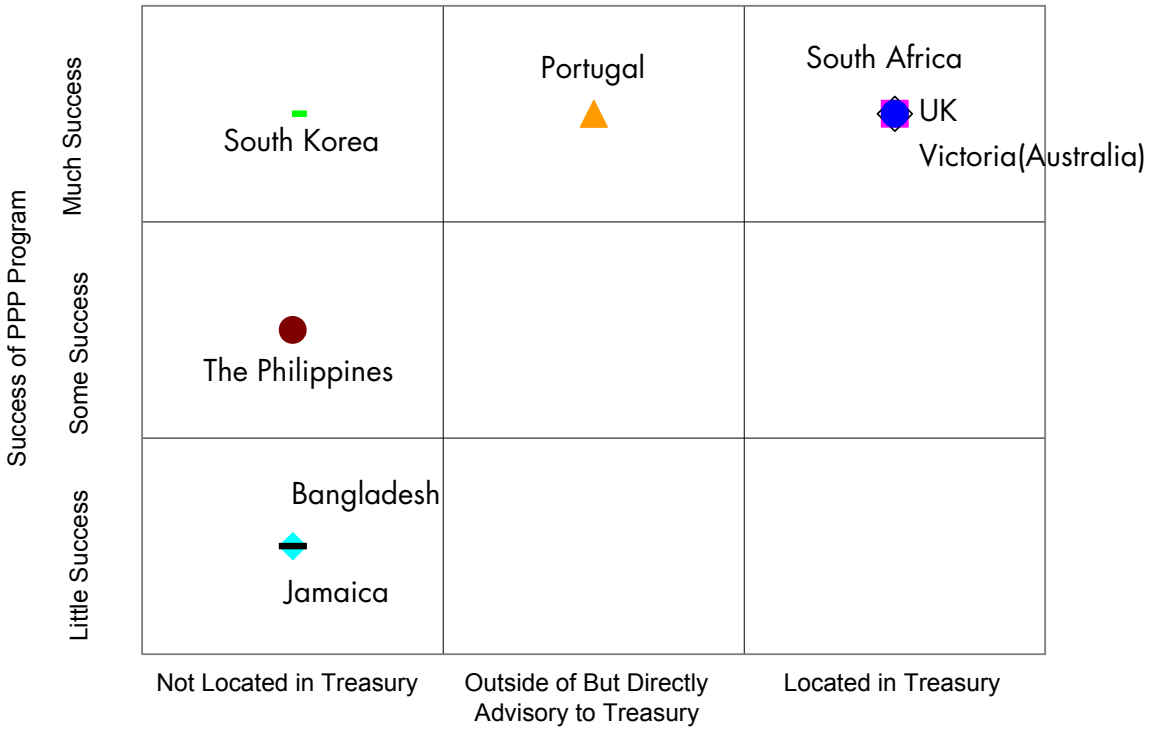
Locating PPP Units

Section 6.1 highlighted the importance of coordination within the machinery of government, and political support for a PPP Unit's objectives. Because of the importance of these factors, the location of a PPP Unit is one of the most important design characteristics.

Differences in PPP Unit location explain much about the differences between the successes of PPP programs in these countries. PPP Units in Bangladesh and the Philippines, for example, operated as quasi-independent Units. The South African and Victorian PPP Units were located within the countries' respective treasury departments (in other words, the ministries of finance). Partnerships UK, while not located within the treasury, was created out of the treasury, and has treasury representatives on its board as nonexecutive directors. Moreover, the UK treasury has its own PPP taskforce, ensuring that the quality control function remains within the treasury.

In Republic of Korea and Jamaica, the units advised a Ministry of Finance, but only to the extent that they may have sat on intergovernmental committees with them. Portugal's PPP Unit reflects a different variation. Parpública is a separate body from the ministry, but

Figure 6.3
Location of PPP Units within Government



some of Parpública's employees have been hired directly by the Ministry of Finance to advise on PPPs.

The results suggest a PPP Unit will be effective if located within a strong ministry of finance or treasury. In South Africa, the UK, and Victoria, the Treasury Departments are powerful because they control scarce government resources. Treasury therefore has important enforcement power in these countries, through both:

- Direct power, because treasury must approve a fiscal commitment to a PPP project before it can happen
- Indirect power, because agencies and ministers may fear future budget cuts in retaliation for behavior with which Treasury disagrees but cannot stop.

The treasury also generally attracts higher-caliber staff than other government agencies because of its relative power and importance, and has credibility with other ministers.

Moreover, location of a PPP Unit within the treasury is consistent with making sure that PPP programs have the "right" goals, as we have defined them. Line agencies have incentives to enter into PPPs that provide infrastructure or services. They may not always, however, have as strong incentives as treasury to make sure PPPs are affordable for the government as a whole, or offer the best value for money. A treasury department naturally has such quality control incentives.

In a parliamentary system, we do not believe a body created through statute would be better suited than a treasury department to fulfill the quality control function. In Jamaica (also under a parliamentary system), we speculate that NIBJ would be effective under the Ministry of Finance, and would likely have struck higher-quality PPPs, more consistent with the NIBJ's goal of reducing fiscal drain. Instead, NIBJ was put under the Prime Minister precisely because the government wanted to have the flexibility to pursue PPPs that were driven more by political than fiscal priorities.

In nonparliamentary systems, such as the presidential system of the Philippines and many Latin American countries, the appropriate location and legal form of the PPP Unit are less clear. In a country with a strong planning or policy coordination agency, that agency might make a natural home for a PPP Unit.

In countries where legislative acts that control or direct executive functions are common or effective, passing a law to empower the PPP Unit and define its responsibilities may be effective. For example, the Philippines highly legalistic culture makes the decision to create the BOT Centre by statute understandable.

Finally, it is useful to consider the lessons from this section in conjunction with the lessons from Section 6.1.1 on the importance of high-level political commitment. The most successful of the PPP units surveyed have benefited from a combination of high-level political support, and close association with a Ministry of Finance or Treasury.

Where PPP Units Are Often Effective

As shown in Table 5.1, the PPP Units surveyed nearly all provided vital technical assistance to implementing agencies. Bangladesh's IIFC and the Philippines BOT Centre have both seen considerable demand for technical assistance, despite the fact that implementing agencies are not required to seek such assistance.

As further proof of the value of PPP Units' expertise, nearly all of the PPP Units surveyed were called on to help when contracts fell into dispute, regardless of whether they had helped in contract preparation, tender, and evaluation.

These facts point to the scarce, highly specialized, and multidisciplinary set of skills required for PPP development and management.[42] As the continued existence of Partnerships UK indicates, these skills are scarce in developed as well as developing countries.

The question for PPP Unit designers is how to make sure implementing agencies use a PPP Unit's services more consistently and less selectively. Options seen from the case studies are:

- To require the PPP Unit's approval at various stages, as in South Africa
- To keep separate the "quality control" and "project origination/promotion" functions into two institutions. As discussed in Section 4.2.1, implementing agencies do not always have the incentives to strike affordable PPPs which offer value for money and optimal risk transfer. If consultation with the PPP Unit is optional, yet the PPP Unit also ostensibly fulfills a quality control function for another branch of government, implementing agencies may be hesitant to seek assistance for fear of interference in their project. This may explain the recent experience of the BOT Centre in the Philippines, where the BOT Centre provides technical support, but also advises the Investment Coordination Committee.

In countries with limited PPP experience, the first option has shown to be the most effective. The eventual separation of the project development and quality control roles may be appropriate for more mature PPP markets. Partnerships UK emerged as a separate, successor body from the project arm of the treasury taskforce only in 2000, well into the UK's PPP program.

Other Design Considerations

The most important questions about PPP Units, and the first policy makers should ask and answer, before proceeding to detailed questions of design, are whether to have a PPP Unit, and if so, what will be the unit's responsibilities, authority, and location.

Other, more detailed design considerations may indeed influence the success or failure of a PPP Unit, but the determinants of success or failure in our case studies were at such a high level that they obscured the advantages or disadvantages of further finetuning PPP Unit design.

While the importance of secondary design features did not feature prominently in our findings, the work done does allow us to make some observations on the following points:

- **Integration of various kinds of PSP.** Should a single Unit deal with all types of private participation, for example both greenfield and brownfield developments, both infrastructure and noninfrastructure, both privatization and more limited risk sharing with private sector? The definitions in Table 2.1 demonstrate the significant variation in the scope of responsibilities PPP Units may have. There is no evidence that the sectors or types of private sector participation determined success or failure. The more successful cases, the UK, Victoria, South Africa, for example, have fairly restrictive definitions of PPP, but so also does the Philippines. What many of the more successful countries share (which, for example, Bangladesh and Jamaica lack) is a very clear statement of what are considered to be PPPs
- **Handling subsovereign transactions.** Should a national PPP Unit deal with state or municipal PPPs? As mentioned earlier, in deciding the scope for a PPP Unit's responsibilities, it is important to assess not just the failures of central government, but also of provincial and municipal governments. This analysis can help drive thinking about whether a PPP Unit's responsibilities

[42]All of the units surveyed had multidisciplinary teams usually consisting of a mix of lawyers, project finance experts, economists, and engineers, either as part of their permanent staff or subcontracted as consultants.

should extend to lower levels of government. This paper cannot offer any useful observations on the track record of PPP Units in facilitating or preventing subsovereign PPPs, though this is an important topic. South Africa appears to have been fairly restrictive of municipal PPPs since it took responsibility for them in 2003. In Korea, on the other hand, municipal PPPs outpaced national-level PPPs for many years, albeit prior to the creation of PICKO (PIMAC's predecessor)

Consistent with the earlier recommendations about the importance of integration with fiscal policy, the only suggestion is that the responsibilities of the PPP Unit should correlate with the state or municipalities' dependence on federal funding. If most funding comes from the federal level, then it makes the most sense for the federal government to want to control what PPP activity is undertaken with those funds

- **Standardized procedures and templates.** Nearly all of the PPP Units we surveyed had taken at least some steps to standardize documentation and procedures, and make those standardized documents available. South Africa's documentation is extensive and of high quality, as is the documentation in Victoria, the UK, and Republic of Korea. There appears to be less standardized documentation in Jamaica, the Philippines, and Bangladesh. We believe this is a symptom, rather than a cause, of failure however. These Units have been less effective in developing good documentation because when they do, line agencies and private partners have no obligation, and often no interest to use it. The countries with the best documentation also have the highest levels of authority to make sure that documentation is used
- **Ability to offer project development funding.** Few of the PPP Units directly oversaw funds that they could make available to project developers. IIFC in Bangladesh initially had some funds available for prefeasibility studies. The Philippines PPP Unit oversees a Project Development Facility that can make funding available for prefeasibility and feasibility studies. NIBJ managed the government's Capital Development Fund, which provides some funding for feasibility studies. Evidence from these case studies does not show that the ability to offer project development funding helps determine whether a PPP Unit is effective

  On the other hand, there are examples of PPP Units structured as financial institutions and accompanied by a strong policy advisory group which itself is a PPP. Such a structure enables the Unit, to create a policy environment for PPPs and then promote these partnerships with debt and equity support. The Infrastructure Development Finance Corporation (IDFC) in India is a good example of such an approach
- **How the Units were staffed.** There was wide variation in the way Units were staffed. Box 4.3 has already described some of this variety. Offering higher salaries does not appear to have been a clear determinant in success, as one might expect. In Bangladesh, for example, IIFC offers private sector salaries but some perceive the risk that, in trying to cover those salaries, it has become somewhat mercenary in trying to sell its services to the public sector as well as the private sector.

  IIFC and the Philippines BOT Centre made extensive use of long-term consultants, whereas most of the other PPP Units had small multidisciplinary teams

that made use of consultants less frequently, and generally for specific technical advice

No firm conclusions can be drawn on any of these design considerations. The main determinants of success and failure, in the PPP Units we surveyed, were at a much higher level. As described earlier in this section, high level design considerations are paramount, and still at risk of being overlooked in PPP Unit design.

Conclusion

In closing, the key points are:

- PPP Units are not a miracle cure. Less effective governments tend to have ineffective PPP Units. Where government agencies are corrupt and uncoordinated it will be difficult for a PPP Unit to escape the same fate
- Without high-level political support for the PPP Program, a PPP Unit will most likely fail.
- Well-designed PPP Units have been developed in response to a clear need, and a clear understanding of how existing government institutions fail to meet that need.
- In parliamentary systems, effective PPP Units have tended to be attached to treasury departments (ministries of finance). This reflects the natural role of the treasury in coordinating government policies and expenditure, its mandate to manage fiscal risk, and the power treasuries derives from holding the purse strings of government. In a nonparliamentary system a PPP Unit may do best if attached to a powerful coordinating agency
- PPP Units with executive power tend to be more effective than those that are purely advisory. It is important, however that the power be coupled with a mandate to promote and facilitate good PPPs, or the Unit may simply wield a veto without adding value.

Appendix : Case Studies

1 Jamaica: National Investment Bank of Jamaica

The National Investment Bank of Jamaica (NIBJ) has had primary responsibility for implementing PPP arrangements in Jamaica since 1984, succeeding the Jamaica National Investment Corporation (JNIC).[43] Widespread dissatisfaction with the operating efficiency of government-owned enterprises, and their drag on the government's budget, provided the impetus for introducing greater private sector participation in these enterprises.

Many government officials viewed NIBJ as relatively ineffective during the 1980s, and little different from its predecessor. The government therefore sought to give new life to the privatization program in 1991 with Ministry Paper No. 34, which contained the first official government policy statement on privatization and formalized NIBJ's responsibility for implementing the privatization program.[44]

Ministry Paper No. 34 envisages privatization as "… a fundamental strategy of the government to achieve growth and development within the context of a market economy." The public sector was to be "… largely confined to providing the appropriate policy framework and infrastructure necessary to support the productive sectors." Other aims of privatization cited by Ministry Paper No. 34 were to streamline the public sector, improve openness and transparency of the privatization process, remove excessive bureaucratic intervention in the marketplace, and broaden the base of ownership and competition in the economy.

Justification for the privatization program was based on the need to:

- Secure greater efficiency
- Reduce fiscal drains
- Optimize the government's management resources
- Secure enhanced access to foreign markets, technology, and capital
- Broaden the base of ownership in the society.

What has NIBJ achieved?

NIBJ completed 47 privatizations between 1988 and 2003. Twelve of these projects were in infrastructure sectors, the others in competitive sectors. Table A.1 provides detail on the infrastructure projects.

[43]By order of Ministry Paper No. 24 of 1984.

[44]We use the term "privatization" throughout this discussion of Jamaica, but PPP arrangements under NIBJ included performance-based management contracts, BOOs, BOTs, concessions, and leases, in addition to full divestiture.

Table A.1
Infrastructure PPPs in Jamaica

Financial Closure Year	Project Name	Primary Sector	Segment	Type of PPI	Subtype of PPI	Investment Years	Total[45]
1989	Cable and Wireless Jamaica	Telecom	Fixed access, mobile access, and long distance	Divestiture	Full	1990-2004	462
1994	Jamaica Private Power Corp. (Rockfort)	Energy	Electricity generation	Greenfield project	Build, own, and operate	1994-1994	144
1994	Jamaica Energy Partners (Old Harbour)	Energy	Electricity generation	Greenfield project	Build, own, and operate	1994-1994	102
1994	Kingston Container Terminal	Transport	Terminal	Concession	Rehabilitate, operate, and transfer	1994-1994	30
1995	Montego Bay Oil-Fired Power Plant	Energy	Electricity generation	Greenfield project	Build, own, and operate	1995-1995	43
1999	Jamaica Rail Service	Transport	Fixed assets and intercity passenger	Divestiture	Partial	1999-1999	
1999	Cellular One Caribbean	Telecom	Mobile access	Greenfield project	Build, own, and operate	1999-1999	45
2001	Digicel Jamaica	Telecom	Mobile access	Greenfield project	Build, own, and operate	2001-2003	424
2001	Jamaica Public Service Co.	Energy	Electricity distribution, generation, and transmission	Divestiture	Partial	2001-2001	201
2001	Oceanic Digital Jamaica	Telecom	Mobile access	Greenfield project	Build, own, and operate	2001-2003	175
2002	Highway 2000 Infrastructure Project	Transport	Highway	Greenfield project	Build, own, and transfer	2002-2002	390

Source: World Bank PPI Database.

[45]Includes investment in government assets (proceeds) and investment in facilities.

Table A.2 summarizes the number and value of public-private sector transactions Jamaica has closed, in infrastructure as well as competitive sectors. The table also indicates average annual privatization proceeds and PPI value as a percentage of average nominal GDP during the same time period. These ratios are then used to rank Jamaica versus other countries in the world, and in the Latin America and Caribbean Region.

In addition to the data presented above, Jamaica's privatization program is generally known, anecdotally, to have been one of the largest in the developing world in terms of the number of enterprises affected.

Analysis: Jamaica's Record in Context

Jamaica has had some relatively successful privatization transactions, including roughly 175 MW of new generation procured through three separate IPPs. The total investment in private generating plants under these contracts now amounts to more than US$250 million. The figures in Table A.1 and Table A.2, however, belie some of the difficulties the country has experienced in implementing PPP. Jamaica's apparent success at attracting private investment must be considered in light of the following factors:

- Many of Jamaica's early privatizations were "easy" in that they focused more on relieving

Table A.2
Summary of PPP Activity in Jamaica

	Privatization proceeds (All Sectors)[46]	Private sector purchase of, or investment in public infrastructure[47]
Total Number	47	12
	(US$ millions)	
Total Value	763	2190
Average per Project	54	182
Annual Average	16	146
As percentage of average GDP during same time frame	.09 percent	2.28 percent
Ranking versus other countries (World)	40th out of 105	39th out of 124
Ranking versus other countries (Region)	13th out of 25	9th out of 21

Source: Calculated with data on privatization procee ds from the World Bank Privatization Database (http://rru.worldbank.org/privatization/), data on PPI from the World Bank PPI Database (ppi.worldbank.org), and IMF World Economic Outlook Database, September 2006 (http://www.imf.org/external/pubs/ft/weo/2006/02/data/index.aspx).

[46] 1988-2001 time period

[47] 1989-2003 time period

the government of bankrupt enterprises than encouraging efficiency or transferring risk to the private sector. A Data Resources Systems International (DRSI) report to NIBJ found, "Early privatizations… were generally of small, fully or partially bankrupt firms, making them politically the least troublesome."[48]

- Major transactions failed to meet the goals that PPP improve operating efficiency of public enterprises and shift risk to the private sector. As the DRSI report noted, "… the Jamaican approach has often been described as involving mainly ownership transfer with little or no focus on the efficiency of operations." Examples include the following:
  - –In 1994, the government sold a 78 percent stake in Air Jamaica to AJAG group, a consortium owned in part by Sandals Resorts owner Gordon "Butch" Stewart. AJAG group is credited as rehabilitating the airline's image and increasing market share, but at significant expense to the government. AJAG continually sought and secured the government's agreement to cover the airline's losses. After restructuring debt to cover these loans, the government eventually found itself with a controlling share, and again took complete control of the airline in 2005.
  - –Jamaican officials who have seen the terms of the concession for Jamaica Highway 2000, the country's first and so far only toll road, report that most of the operational risks remain with the government, not the private sector operator. The details of the contract remain confidential. The primary goal appears to have been to build a road off balance sheet. We understand that the debt is largely or entirely government guaranteed. The contract was also awarded without competition.
- Implementation of transactions without adequate transparency has been a concern. Despite the fact that improved transparency was a goal of Ministry Paper No. 34, as the DRSI report found, "several obstacles therefore appeared to confront effective implementation of such a process (privatization) agenda. One is the dominance of patronage-type relationships and apparent secrecy in the political process. This condition has encouraged doubts about fair allocations in the sale of public assets and enterprises. It has tended to repress transparency in some significant official transactions. Overall, it has encouraged a tendency to politicize many issues and processes relating to public policy."
- Implementing the transactions took longer than expected. In any country's privatization program, policy makers may reasonably sacrifice some openness and transparency in the name of expediency. Tradeoffs clearly exist between transparency and quick closure of a good deal. In Jamaica, however, the opacity of PPP procurement does not appear to have allowed for expediency.
- The award of the Sangster airport concession, for example, is regarded as having taken far longer than expected while also lacking in transparency. The attempted privatization in 1996 of Jamaica Public Service, the state-owned electricity company, was similarly protracted, yet nontransparent. Two bids were received, and as a World Bank report Implementation Completion Report describes, "Bid opening was followed by 10 months of discussion with the two bidders in which elements other than price were considered.

[48]DRSI Ltd. *Privatisation Impact Assessment Study*, May, 1995. Unpublished Report - *Privatisation Impact Assesment Study*, May, 1995 - DRSI Limited

Finally, when it appeared that discussions had been completed and a firm selected… word leaked out that the lower-price bidder was being recommended as the winner. This resulted in an outcry from the political opposition and the press…"[49] JPS was left in the hands of government managers, and finally privatized in 2001. During those five years, largely because of poor government management, capacity margins fell to 9 percent, from 26 percent, service quality deteriorated, and JPS' cash surpluses dwindled. The government sold 80 percent of the utility for roughly US$200 million, but effectively earned no proceeds because of the sale agreement that was negotiated which provided for government to absorb the approximately US$200 million in accumulated sector debt, largely to multilateral financial institutions, that was left on JPS' books.

- Much more could have reasonably been done. It is difficult to justify that the government provides any net public benefit from its involvement in, for example, tourism (where several management contracts have been let at government-owned properties) or air travel. But even in infrastructure sectors where arguments can be made about the need for government involvement in provision of public services, the opportunity for some sort of PPP has been overlooked at significant social cost. A 1999 study by Jamaica's Investment Facilitation Council and National Water Commission (NWC) found that investments worth US$500 million were delayed in other sectors because of a lack of delivered water. Jamaica's primary problem is unaccounted-for-water, a problem that even limited risk-sharing PPP arrangements can be effective in solving.

NIBJ appears to have failed in reaching the primary objectives set for it. The fiscal burden of PPPs has persisted, with Jamaica famously intervening to bail out several failed agreements. Partly as a result, Jamaica's public debt stands at 128 percent of its GDP. Jamaica ranks 5th in the world in its debt to GDP ratio.

Service quality and efficiency has deteriorated in a number of sectors where PPP was possible, considered by NIBJ and then botched. A management contract for JPS between 1996 and 2001 brought the sector to a crisis where privatization became the only option. Water service has similarly deteriorated amidst plans to introduce PPP but lack of action.

Moreover, NIBJ appears to have failed in following the transparent process envisioned for the privatization program.

The fact that NIBJ has had nearly exclusive responsibility for PPP since the early 1980s, suggests that NIBJ bears much of the responsibility for the shortcomings of Jamaica's PPP efforts. The failure of NIBJ, however, goes beyond NIBJ itself, to a problem of conceptualization and design. Political ambivalence on PPP has caused many of Jamaica's PPP deals to founder (or never emerge). We perceive that this ambivalence has been driven by:

- A lack of transparency in implementation of PPP transactions, which allows the Government to strike bad deals without scrutiny or, once the deals have been struck behind closed doors, invites political backlash that threatens the deals themselves and more generally, future efforts to introduce PPPs
- The historically socialist leaning of Jamaican politics. Despite the government knowing it needs

[49]Implementation Completion Report for the Energy Sector Deregulation and Privatization Project, IBRD, June, 2000.

to bring in private owners and operators, the government continues to step in when it perceives crisis in a particular sector (for example, to bail out a loss-making airline)

More generally, the ambivalence of the government on PPP, and its failure to create a PPP Unit isolated from this political ambivalence, runs counter to Jamaica's needs as one of the world's most heavily indebted nations.

2 South Africa: National Treasury PPP Unit

Regulation 16 of the Public Finance Management Act (PFMA) established South Africa's National Treasury PPP Unit in 2000 as a filter to exclude fiscally irresponsible PPP transactions. The PFMA defined a broad program of fiscal reform, begun in 1997 with greater decentralization of government budgeting and the requirements that government agencies prepare three-year rolling spending plans and seven-year forecasts. During this time, some government agencies began using PPPs as a way to circumvent PFMA's formal budgetary limits.

The genesis of the PPP Unit was driven by treasury concerns over a specific PPP transaction proposed by the Ministry of Public Works. The Ministry of Public Works intended to procure a 30-year Build Operate Transfer contract for two prisons. Treasury found out about the contract, and asked to review it. Treasury's analysis found that the prisons indeed offered value for money (in the sense of being better value than a public sector alternative), but would be extremely expensive to build, and would likely require resources the Ministry of Public Works did not necessarily have.

Treasury stopped the prison BOT but feared that doing so could signal to private investors a precedent for arbitrary intervention in PPPs. Treasury therefore sought to establish a set of clear rules for PPPs, in an effort to prevent fiscally irresponsible PPPs while also seeking to maintain investor confidence that a clear set of rules existed for private sector involvement in state enterprises.

PFMA Regulation 16 requires that every PPP agreement:

- Be affordable for the government
- Show value for money
- Transfer substantial technical, operational and financial risk to the private partner.

The regulation requires formal treasury approval for each PPP at four stages:

- Upon completion of feasibility study. The role of the PPP Unit at this approval stage is to make sure the costs of a PPP are affordable, in other words, that those costs are consistent with the implementing agency's forward budget
- Upon completion of bid documents (including the draft PPP agreement)
- Upon selection of preferred bidder and preparation of value for money report
- Upon finalization of negotiations with bidder and finalization of PPP agreement.

In 2003, A Municipal Finance Management Act extended the PPP Unit's responsibilities to include oversight of municipal PPPs.

The design of South Africa's PPP Unit was influenced by the treasury PPP Unit in the UK.

What Has South Africa's PPP Unit Achieved?

The Treasury PPP Unit has closed 13 deals since its establishment. Seven of these projects are worth a net present value of US$220 million in annual payments from the public to the private partner for services provided (so called unitary charges. The other five are worth a net present value of US$80 million in

[50]These figures exclude the US$3 billion Gautrain project, of which the private developer's participation is worth roughly US$500 miillion.

cash, capital works, and operations.[50] These deals included services in the transport, healthcare, IT, and government housing sectors. The PPP Unit closed its most recent transaction in April 2004 (A Social Grant Payment System for Free State). Eight PPP deals were closed before the PPP Unit was created. These projects included two toll roads projects, two prisons, and four national parks. Most recently, in February 2007, the PPP Unit saw the successful closure of the Gautrain project, under which a private firm will build and operate an underground train between Pretoria and Johannesburg, and from the Johannesburg airport to the city center.

Table A.3 summarizes the number and value of public-private sector transactions South Africa has closed, in infrastructure as well as competitive sectors. The table includes transactions after 2000 in which the PPP Unit would not have been involved, for example, the construction of the Mozambique-South Africa Gas pipeline in 2003. A considerable amount of private sector investment in state enterprise has taken place without the PPP Unit, but these have involved ownership transfer, and are dominated, in

Table A.3
Summary of PPP Activity in South Africa

	Privatization proceeds (All Sectors) [52]	Private sector purchase of, or investment in public infrastructure [53]
Total Number	25	12
	(US$ millions)	
Total Value	25	33
Average per Project	197	371
Annual Average	329	557
As percent of average GDP during same time frame	0.25 percent	0.44 percent
Ranking versus other countries with 15-25 years' data (World)	76th out of 105	111th out of 124
Ranking versus other countries with 15-25 years' data (Region)	20th out of 32	34th out of 42

Source: Calculated with data on privatization proceeds from the World Bank Privatization Database (http://rru.worldbank.org/privatization/), data on PPI from the World Bank PPI Database (ppi.worldbank.org), and IMF World Economic Outlook Database, September 2006 (http://www.imf.org/external/pubs/ft/weo/2006/02/data/index.aspx).

[51] PFMA Regulation 16 defines a PPP as "a commercial transaction between an institution and a private party in terms of which a) the private party either performs an institutional function on behalf of the institution for a specified or indefinite period; or acquires the use of state property for its own commercial purposes for a specified or indefinite period; and b) the private party receives a benefit for performing the function or by utilizing state property, either by way of (i) compensation from a revenue fund, (ii) charges or fees collected by the private party from users or customers of a service provided to them, or (iii) a combination of such compensation and such charges or fees." In practice, this definition generally excludes divestiture or any arrangement where the operator ends up owning formerly state-owned assets.

[52] 1989-20003 time period

[53] 1990-2005 time period

terms of value, by several large transactions in the mobile telecommunications sector.[51] Two private participation projects have been canceled while in progress in South Africa: A partial divestiture of Airports Company Ltd in 1998, and a 1995 management contract for Water and Sanitation Services in Fort Beaufort.

In addition to presenting number and value of transactions, Table A.3 indicates average annual privatization proceeds and PPI value as a percentage of average nominal GDP during the same time period. These ratios are then used to rank South Africa versus other countries, in the world, and in Sub-Saharan Africa.

An analysis of the data from which Table A.3 was created shows that the average value of transactions (both annual average and project average) has decreased since the PPP Unit was created in 2000, but the average number of transactions per year has increased. The average transaction value for projects closed after 1999 is a small fraction (roughly 20 percent according to the World Bank privatization database) of those implemented during the late 1980's and 1990s. Average annual transaction value as a percentage of average GDP after 2000 is roughly half what it was prior to 2000.

The data also show, however, that more, albeit smaller, projects are being implemented. South Africa has done two-three projects per year since 2000, and an average of only one project per year before 2000.

The creation of the PPP Unit cannot have been entirely responsible for the trend we observed in this section, because not all of these projects would necessarily have fallen under the purview of the PPP Unit. However, the objective of the PPP Unit was to prevent PPPs that favor the private partner at expense of the public, while maintaining a welcoming environment for private investment. The trend of more, yet smaller projects is not inconsistent with such a goal.

Analysis: South Africa's Record in Context

The objectives of South Africa's PPP Unit are perhaps more limited than that of PPP Units elsewhere. The treasury PPP Unit was initially established to prevent poorly designed PPPs, not necessarily to promote PPP ideas. Its objectives are first for all PPPs to meet the criteria of affordability, VfM, and appropriate risk transfer, and to establish a framework for PPP projects that protects the government against PPPs that are likely to fail. This role has ultimately also served to attract private partners to South Africa and not merely prevent bad partnerships.

The objectives of the South African PPP Unit recognize what the somewhat more mature PPP programs in the UK, Australia, and Portugal have learned. The primary benefits of PPP are risk transfer, and then to a lesser extent, VfM. Using PPP to move investments off balance sheet has proven illusory for most countries. PPPs are now used in South Africa primarily to transfer specific risks to a private sector operator who is better able than the public sector to bear such risks.

The PPP Unit's success is owed, at least in part, to the environment that existed to support it, specifically:

- The PPP Unit was launched as part of a package of fiscal reforms that made explicit the treasury's role in approving PPP-related budget decisions of government agencies. Legally, municipal and federal agencies can launch feasibility studies and begin soliciting investor interest without consulting the PPP Unit. In practice, however, most agencies seek the Unit's advice at the inception of a PPP idea, and investors will pay an idea little attention unless they know the PPP Unit is involved.

- The PPP Unit was located within the treasury. The PPP Unit's formal role is advisory only. However, in practice, the Unit has tremendous credibility and therefore effectively has the last word on PPP projects. The Unit's location within treasury also meant that it had access, from its inception, to a set of skills well suited to evaluating the long-term fiscal consequences of PPPs and procuring private partners.

The treasury PPP Unit in South Africa has indeed been successful at achieving its objectives. The Unit's success stems, at least in part, from the fact that its objectives were clear from the beginning, and responded to specific needs of the treasury. These objectives, and the PPP Unit's functions, were wrapped into a comprehensive set of fiscal reforms and defined in law. Moreover, because the Unit was located within the treasury, its role and authority relative to other government agencies were strong relative to other government agencies from the outset.

3 Portugal: Parpública PPP Unit

Portugal pursued its first PPPs in the mid 1990s, primarily as a way to have new infrastructure built quickly in a way that would rely on private sector, rather than fiscal resources. Most of these early PPPs were in the transport sector, as agreements with private operators to build highways and bridges. These early PPPs proved problematic in that they:

- Failed to consider the long-term affordability of PPPs. Portugal's early PPPs succeeded in building new infrastructure, but imposed a significant longer-term fiscal burden. In a spring 2003 audit of existing PPPs, Portugal found that its PPP-related liabilities amounted to 10 percent of GDP.
- Suffered from delays and cost overruns, caused, at least in part by:
  - –Insufficient risk transfer to the private sector. The government of Portugal often ended up effectively absorbing more risk than defined in the contract. For example, several PPP agreements allocated design and construction risks to the concessionaire, but left the public partner responsible for any delays in land expropriations, environmental permitting and other public sector decisions. The government often set too strict a timeline for many of these approvals. Concessionaires, for their part, had no incentive to make sure government approval deadlines were met because such delays left it able to shift cost overruns to the public sector.
  - –Rigidities in the procurement process that, in some cases, discouraged competition in bidding for PPP contracts. The government found that many PPPs had higher construction and financing costs than expected from a competitive tender.
- Suffered from a lack of public sector capacity for evaluating and managing such partnership agreements. This lack of capacity was exacerbated, to some extent, by a trend of public sector employees leaving to take jobs with the private partner in a PPP.[54]

Portugal's accession to European Monetary Union in 1999 called attention to the importance of fiscal policy, both because of the stringent requirements of monetary union and because, having ceded monetary policy to the European Central Bank, Portugal was left only with fiscal tools for macroeconomic management.

[54]Monteiro, Rui Sousa. *Public Private Partnerships: Some Lessons from Portuguese Experience*. January 20, 2005.

By 2001, Portugal's economy had large amounts of external debt, with significant current and capital account deficits. Portugal became the first of the members of the Monetary Union to breach the Eurozone's Stability and Growth Pact budget deficit target of 3 percent.

The government responded by launching a comprehensive program of fiscal reform with the 2001 Budget Framework Law. This law moved the government away from year-on-year budgeting toward a multiyear budgeting, planned a transition toward activity-based budgeting, and set out common principles for government accounts, budget planning, and auditing.[55] The law also includes two provisions specifically relevant to PPPs, namely that:

- Government agencies to make explicit appropriations for PPPs, and to explicitly show the long-term fiscal consequences of such agreements
- As part of the assessment of any PPP, the use of a counterfactual similar to the public sector comparator used in the UK and Victoria, Australia. The public benefit must be measured in terms of:
  - Increased efficiency in the allocation of public resources
  - Qualitative and quantitative improvements in the service provided

In 2003, the government passed Decree Law No. 86/2003 that provides for "the definition of general rules related to government intervention in the design, conception, preparation, tender, adjudication, modification, auditing, and global surveying of public-private partnerships". The Decree Law also sets minimum requirements for PPPs. These requirements seek to avoid problems experienced with past agreements, and stipulate that PPPs must:

- Comply with the multi-annual budgeting and appropriation process stipulated by the Budget Framework Law
- Clearly stipulate goals and outputs of the works and services to be provided by the private sector (rather than input specifications)
- Make use of a public sector comparator
- Be designed so that the private partner can obtain all governmental approvals before finalizing the agreements
- Transfer substantial risk to the private partner and clearly identify which risks are transferred to the private partner and which are assumed by the public partner.

Parpública SA, a company owned entirely by the treasury, was subsequently given formal responsibility for enforcing Decreto Lei No. 86/2003 by Despacho Normativo 35/2003.[56] The PPP Unit carries out a separate technical assessment of each PPP project (including an assessment of the tender documentation) before the procurement phase and provides its recommendation to Ministry of Finance. The Unit also provides technical assistance to line ministries at various stages of PPP procurement and management.

What Has Parpública Achieved?

PriceWaterHouseCoopers has estimated that Portugal closed roughly US$10–$12 billion in PPPs during 2004–2005, representing 10 percent of all deals closed in Europe.[57] Of its European peers, Portugal has had, by far, the highest PPP activity when measured as a percentage of GDP in Europe.[58] The

[56]A group within Parpública had been advisiing Portugal's Department of Treasury on PPPs since 2000.

[57]*Delivering the PPP Promise*. PriceWaterhouseCoopers. 2005.

[58]PPP Activity is measured in terms of average investment value during 2000-05.

total value of PPP project investment since 1994 is worth more 120 percent of the country's current GDP, twice the level of the country with the next highest ratio (the UK).

PPP activity in Portugal has been concentrated in the transport sector but has also included significant activity in the water and wastewater sector, and increasing activity in the healthcare sector.

Analysis: Parpública's Record in Context

The data above suggest that Portugal's PPP Unit has succeeded in maintaining sufficient deal flow. Other, anecdotal evidence suggests that it has been able to do so while also correcting some of the problems experienced with PPPs in the 1990s.

The PPP Unit was designed, in part, to fill a gap in the government's ability to assess whether PPPs were of good quality. There is at least anecdotal evidence that the Unit has achieved this, namely:

- The PPP Unit's formal role is limited to assessing PPPs in the pretender process, but in practice, PPP Unit staff are frequently sought to serve on tender selection committees that evaluate proposals. The PPP Unit's expertise has also been sought to renegotiate contract terms in active PPP contracts.
- The PPP Unit's advice is increasingly sought on broader matters of government procurement.
- The government has proposed changes to Law 86/2003 that would extend the PPP Unit's responsibility to municipal PPPs.

The legacy of affordability problems remain from Portugal's early PPPs, as do the government's fiscal problems. Portugal's budgetary problems have persisted since the creation of the PPP Unit. Portugal met the Eurozone's Stability and Growth Pact targets in 2002 through 2004, but the deficit reached 6 percent of GDP in 2005 and was 4.6 percent in 2006.

There are signs that, with the establishment of the PPP Unit, the government has sought to change its approach to PPPs to address some of its fiscal problems. One of the government's responses has been to change the nature of PPP arrangements it considers. Portugal's shadow toll obligations now stand at roughly €700 million, representing 0.5 percent of GDP. The government consequently decided in 2004 to replace shadow tolls with real tolls in highway concessions.

The PPP Unit has, moreover, attempted to rationalize risk allocation in PPP arrangements by encouraging line agencies to break single PPP projects into multiple projects that better align risks, responsibilities and payments to the actual risks of the PPP. Hospital and transport PPPs, in particular, are targeted for such an approach by striking:

- A longer-term contract to manage hospital buildings and a separate, shorter-term contract to provide clinical services
- A longer-term contract to provide the infrastructure and rolling stock, and a shorter-term contract to provide transport services. As Rui Sousa Monteiro, head of Portugal's PPP Unit explained in a recent paper, "the service of the infrastructure and the rolling stock is subject to availability risk, whereas transport services are subject to traffic risk. The contract period for transport services is usually shorter than that for providing the network and trains available; this is because the public sector cannot commit itself for a long period on some factors that affect traffic risk, such as maximum ticket rates, new transport systems, or urban parking rules."[59]

The PPP Unit therefore appears to have been successful in improving affordability and risk transfer of PPPs, while maintaining deal flow in a country that has had relatively heavy reliance on PPP to build and operate its infrastructure.

[59]Sousa Monteiro, Rui. "Public Private Partnerships: Some Lessons from Portugal". EIB Papers. Volume 10 No. 2. 2005.

4 Infrastructure Investment Facilitation Center, Bangladesh

The Infrastructure Investment Facilitation Center (IIFC) was established in 1999 to promote and facilitate private sector participation in infrastructure in Bangladesh. IIFC was established to have a policy role and a transaction advisory role, and to advise both the public and private sectors. More specifically, IIFC was intended to:

- Advise line ministries and other government agencies in identifying and prioritizing potential infrastructure projects for tender, assisting with evaluation, award, negotiation, and implementation of projects
- Promote private sector participation in infrastructure in Bangladesh by working with the private sector and serving as a clearinghouse of expertise on public-private partnerships.

Another institution, the Infrastructure Development Company Ltd (IDCOL) was established concurrently with IIFC to provide government debt financing for infrastructure projects. IIFC and IDCOL are government-owned, limited liability companies. They were established with financial support from The World Bank, and other donors. IIFC, in particular, received support in the form of consulting services sponsored by the Canadian International Development Agency (CIDA), and Department for International Development (DfID), UK support. The World Bank continues to finance 50 percent of IIFC's operating budget.

IIFC has emphasized that its role is not to encroach on the technical and contracting functions of the agencies, but to provide technical assistance when required. Line ministries are not required to seek IIFC's assistance nor follow any of IIFC's guidelines.

Table A.4
Summary of PPP Activity in Bangladesh

	Privatization proceeds (All Sectors) [60]	Private sector purchase of, or investment in public infrastructure [61]
Total Number	36	16
	(US$ millions)	
Total Value	73	3,138
Average per Project	2	196
Annual Average	6	196
As percent of average GDP during same time frame	.02 percent	.45 percent
Ranking versus other countries with 15-25 years' data (World)	103rd out of 105	108th out of 124
Ranking versus other countries with 15-25 years' data (Region)	5th out of 5	6th out of 6

Source: Calculated with data on privatization proceeds from the World Bank Privatization Database (http://rru.worldbank.org/privatization/), data on PPI from the World Bank PPI Database (ppi.worldbank.org), and IMF World Economic Outlook Database, September 2006 (http://www.imf.org/external/pubs/ft/weo/2006/02/data/index.aspx).

[60] 1989-2000 time period.

[61] 1990-2005 time period.

What Has IIFC Achieved?

Table A.4 summarizes the number and value of public-private sector transactions Bangladesh has closed, in infrastructure as well as competitive sectors. Most of the privatization proceeds have come from full or partial divestiture of manufacturing enterprises. Investments in infrastructure have primarily been Build Own Operate contracts in the telecom and energy sectors (six and seven projects, respectively), with three management contracts in the transport sector.

In addition to presenting number and value of transactions, Table A.4 indicates average annual privatization proceeds and PPI value as a percentage of average nominal GDP during the same time period. These ratios are then used to rank Bangladesh versus other countries, in the world, and in South Asia.

The record on the overall quality of PPI transactions in Bangladesh is mixed. Procurement in the power sector, which represents most of the value of PPI completed since 2000, offers examples of both quite good and quite bad projects. IPPs represent roughly 25 percent of Bangladesh's generation capacity. The Haripur and Megnaghat projects, two large independent power producer (IPP) projects completed in Bangladesh in 2001, are regarded internationally as successful examples of competitive procurement that have continued to yield value for Bangladesh in terms of power reliability at reasonable cost.

More recent IPPs, however, have not been of comparable quality. Government has shown a tendency to interfere in the procurement process.. This interference has affected the ability of Bangladesh to install much-needed capacity.[62] Some of the newer IPPs have shown reliability problems, resulting from a combination of poor technology choice, improper design, and faulty operation and maintenance practices.

IIFC has worked on roughly 25 projects. It has assisted in the award of seven-eight licenses to fixed line telephone companies, and six land ports at the country's border points (the latter are worth an estimated US$3 million each). A seaport, a fiberoptic power transmission project, five remote area power supply systems, and an IPP are also currently in different stages of development.

Analysis: IIFC's Record in Context

IIFC has succeeded in accumulating more knowledge of PPPs than other government agencies, but its effect on PPI has been limited because government agencies have no obligation to use IIFC's services or follow any guidelines it may establish.

This stems primarily from:

- A lack of any clear formal or informal power. IIFC provides technical assistance to a Private Infrastructure Committee (PICOM) that sits in the Prime Minister's office, but in practice IIFC has not proven to be influential. IIFC developed in 2004 a set of Private Sector Infrastructure Guidelines for PICOM (with a similar goal as the PPP Manual in South Africa). These guidelines are fairly comprehensive and include, among other things, the requirement for a least cost competitive tender for PPI projects. Experience has shown, however, that line ministries are not required to follow the guidelines.
- The fact that many parallel agencies have responsibility for procurement of PPPs. Procurement in the power sector, for example, has been undertaken by a range of entities. IDCOL was involved in the procurement of the Meghnaghat IPP. Power Cell, a division of the

[62]The World Bank. Bangladesh Country Assistance Strategy. April 12, 2006. Box 2.

Ministry of Power, Energy & Mineral Resources, is now formally responsible for IPP procurement, but recent IPPs have apparently been negotiated without Power Cell's involvement. Some individuals familiar with IIFC in Bangladesh suspect that the line ministries may be asking IIFC to handle only the less attractive, unviable projects.

IIFC does indeed have much more experience dealing with the private sector, and with procurement, than do staff in the line ministries. IIFC's success in building such expertise is due in part to its ability to offer compensation better that that offered in the public sector.

Consistent with its higher salaries and presence of staff with private sector experience, IIFC is commercially oriented. Some observers fear there is a risk that IIFC's orientation has leaned from commercial to mercenary. IIFC seems to have become conscious of the need to justify its salaries and therefore has discussed the possibility of charging line ministries user fees for its services and also offering its services to the private sector. Given that the government of Bangladesh and World Bank provide IIFC's budget, such practices may not be in the best interest of the country as a whole.

Overall, IIFC's limited role stems from its design or lack of design. IIFC's role does little to address the fundamental problem affecting PPI in Bangladesh namely, investor perception of risk. Good PPI agreements cannot be closed because investors perceive too much risk, including default risk by payees, political risk, regulatory risk, and currency risk. Without much local investment capital and limited fiscal resources, the government can sign only low-quality deals, like the recent IPPs that, like similar transactions in Indonesia, were financed through supplier credits and provided generation facilities with very poor reliability.

Default risk is particularly important to investors looking at Bangladesh, given that government companies and agencies make up so many links in the value chain in so many of Bangladesh's industries. The Haripur IPP, for example, protected the private sector partner (AES of the United States) through a take-or-pay arrangement and a World Bank Partial Risk Guarantee.

Bilateral and multilateral lenders, like World Bank and ADB, for their part, are wary of extending more loans to Bangladesh because of concerns about noncompetitive procurement practices.

Since IIFC was established, the average value of each PPI transaction appears to have decreased considerably, as has the average value of each project, from roughly US$250 million to US$90 million.[63] This is not likely a result of IIFC's activities, however. IIFC appears to have had only limited, or at best inconsistent, involvement with the PPP transactions closed in Bangladesh since 2000. Individuals familiar with IIFC's activities note that it has succeeded in accumulating more knowledge of PPPs than other government agencies, and may have succeeded in helping to keep the PPI agenda alive in Bangladesh. Ultimately, however, its overall effect on PPI has been limited because government agencies have no obligation to use IIFC's services or follow any guidelines it may establish.

5 UK Treasury PPP Unit and Partnerships UK

Volumes have been written about the UK's PFI program and Partnerships UK, and many of the PPP Units surveyed as part of this study draw heavily on

[63]The average PPI project size and annual average value of PPI are the same because the number of projects and number of years used as the denominator are identical (in other words, Bangladesh closed one PPI project per year between 1990 and 1999, and closed one PPI per year between 2000 and 2005).

the Partnerships UK model. This paper will therefore not repeat more description and analysis here. In the sections that follow it is briefly limited to:

- Describing the UK's PFI program and the role of the entities involves
- Describe the PFI program's record since its inception
- Assessing the role of the entities involved.

The government of the United Kingdom has been running an active PPP program since 1996. This system, the Private Finance Initiative (PFI) is used in a variety of infrastructure sectors including accommodation, education, environment, defense, equipment, health service, housing and transport. The projects are procured using regulated Design Build Finance Operate (DBFO) bids.

The PFI system was originally seen as a "financial force multiplier". Under John Major's Conservative government it was a way to control the government debt by keeping liabilities off the government balance sheet.

Tony Blair's New Labour government changed the focus from off-balance-sheet financing to value for money through private sector innovation and efficiency. It also re-branded the program as 'Partnerships UK', though the term PFI is still used. All proposals are compared to a "public sector comparator," which estimates the total risk-adjusted cost of carrying out the project in the public sector. Only those that can be done more cheaply in the private sector are implemented.

The UK has separate PPP policy and project development agencies. The project development agency, Partnerships UK, advises government agencies on PPP projects and finances itself by charging fees to the public sector. The policy taskforce sits within the treasury and sets guidance on procurement, deal structuring, and evaluation. Individual line ministries also typically have their own project development teams.

All PFI transactions must be given treasury approval at several stages prior to final contract signature. Both Partnerships UK and the treasury have responsibility for national and local PFI

What has Partnerships UK Achieved

Roughly 700 projects have reached financial close since 1996, worth US$80 billion in capital, or roughly US$8 billion per year in new projects, or roughly 0.4 percent of average GDP during the same time period. The PFI program contributed 10 percent of total investment in public services in 2004.

The UK's PFI activity during the period 1994–2005 represents roughly two-thirds of all activity in Europe.[64]

PFI projects are also more efficiently implemented than publicly procured projects. An average of 80 percent of PFI projects were delivered on time and on budget compared to average of 30 percent for publicly procured projects.

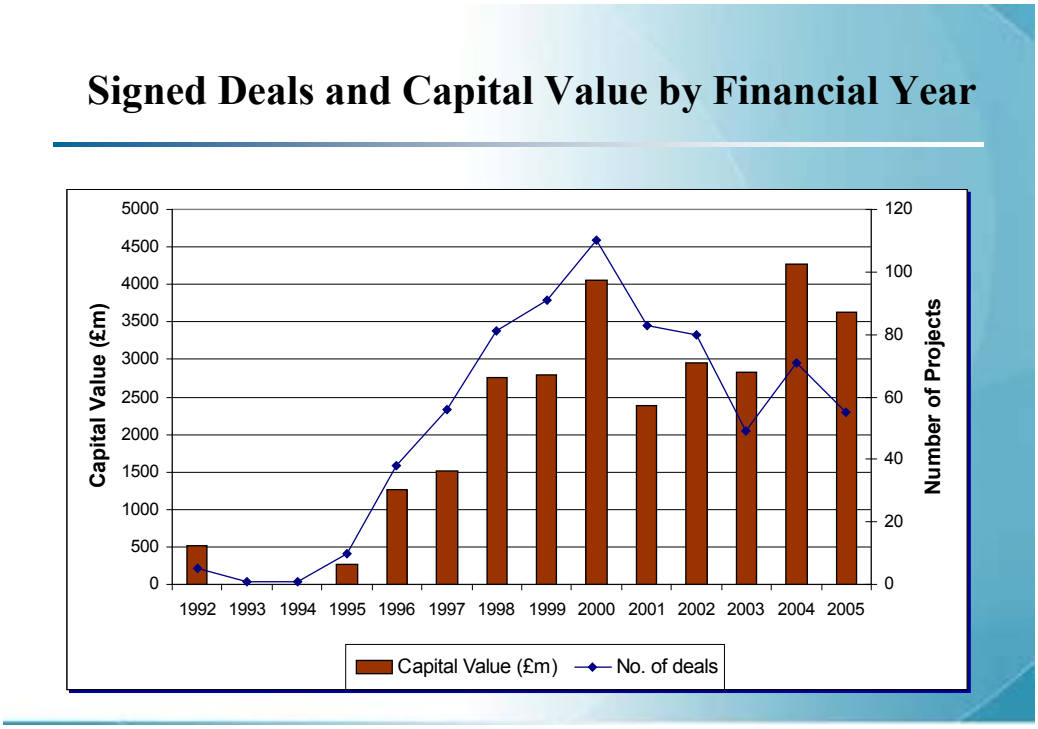
The PFI system has also been successful in providing value for money insofar as each PFI project must compare favorably against a public sector comparator.

Analysis: Partnerships UK's Record in Context

Figure A.1 offers a clear picture of how PPP activity has increased since the beginning of the UK's PFI program in 1996.

[64] *Delivering the PPP Promise*. PriceWaterHouseCoopers. 2005.

Figure A.1
Signed PPP Deals and Capital Value by Financial Year in the UK



Source: Presentation by Ed Farquarson of Partnerships UK, 22 March 2006 at the World Bank.

The primary criticisms raised about the UK's PFI program in general are:

- The time to close contracts can be lengthy (the average time to close deals is slower in the UK than in Portugal), and the negotiation process costly.
- Deal flow has slowed recently, but many recognize this is to the result of a maturing market for PPPs.
- The success of the system has led to a shortage of private consortia able to implement the projects.

Despite these criticisms, the program indeed appears to have been successful in increasing the volume of high-quality transactions that, by nature of the selection process, provide value for money and appropriate risk transfer. Partnerships UK and the treasury taskforce are been central to the program and can therefore be credited with its success.

As noted above, the government's reason for launching the PFI program differs somewhat from the present reasons for PFI. The UK has learned that most of the value of PFI comes not in the ability to circumvent government's self-imposed restrictions on borrowing, but to achieve better value and allocation of risk than in a purely public project.

6 Partnerships Victoria, Australia

The government of the State of Victoria in Australia has had a PPP program since the 1980s. Victoria is Australia's second largest by population and size of its economy.

As in the UK and Portugal, early deals were intended to push government expenditure off the books. Under the Kennet government in the 1990s the focus moved toward transferring maximal risk to the private sector, and reducing costs to government. The successful Citylink toll road was implemented under the Kennet government.

In 1999 Labour was returned to power in Victoria, under Premier Steve Bracks. The Bracks government followed the lead of New Labour in the UK, introducing Partnerships Victoria, an adaptation and expansion of the previous PPP program. The focus is on optimal risk transfer, maximizing efficiency and minimizing whole-life costs.

A team within Victoria's treasury is responsible for implementing the policy.

What Has Partnerships Victoria Achieved?

A recent speech by Victoria's treasurer claimed, "Australia is now the second most developed PPP market in the world" after the UK.[65]

Partnerships Victoria projects include a major new toll road, the redevelopment of Spencer Street Station in Melbourne, redevelopment of the Melbourne Showgrounds, a new convention center, a major new court building, and a number of water treatment works and accommodation projects.

PPPs average roughly 10 percent of Victoria's annual capital asset investment, but ranging from 5 percent to 20 percent in any particular year.

A 2003 review of Partnerships Victoria projects found that PV-procured projects were of higher quality than project-procured through traditional means, specifically:

- Average savings to Victoria through private sector infrastructure delivery were 9 percent when compared to public sector delivery.
- Seventy-three percent of line agency construction projects had run over budget. Only 22 percent of PPPs had run over budget.

The PPP Unit has identified some areas where work is needed. The current work program includes:

- An effort to reduce bid costs (by ensuring there is enough competition)
- An effort (by looking studying PFI in the UK) to achieve better financing outcomes for the government)
- Looking at payment arrangements and output specifications, especially the issue of abatement for nonperformance.

The PPP Unit has identified some areas where work is needed. The current work program includes:

Finally, it has been noted that treasury has a great deal of knowledge and experience in upfront design of contracts but less knowledge and experience managing contracts.

Analysis: Partnerships Victoria's Record in Context

The Partnerships Victoria policy appears to have succeeded in fostering successful PPPs. Because the policy, and the team that implements the policy are one and the same, the treasury team has undoubtedly been responsible for this success.

7 The Philippines BOT Centre

PPPs were first pursued in the late 1980s as a way to solve a looming power crisis. Early efforts focused on the liquidation of select government assets and the reprivatization of certain state-owned corporation. The 1990s saw an explosion of electricity BOT agreements aimed at building badly needed generation capacity

[65]"A national approach to PPPs. The importance of creating a 'single market' appearance to gain global attention: Australia's experience." PPP 2005 Conference. Monday 28 November 2005. Toronto, Ontario, Canada.

the government could not afford to build itself. The late 1990s brought a wider variety of PPP structures (no longer BOTs only), and in a wider range of industries.

PPP program

The government of the Republic of the Philippines' efforts to attract private sector participation in state-owned industries dates to 1987 with President Corazon Aquino's issuance of Executive Order (EO) 215. EO 215 sought to avoid an imminent power crisis by allowing independent power producers (IPPs) to build and sell generation capacity to the state-owned power network on a take-or-pay basis.

Republic Act (RA) No. 6957, also known as the Build-Operate-Transfer (BOT) law was enacted in 1991, and amended in 1994 as RA No. 7718, to provide a framework for private sector investment in infrastructure that the state was unable to afford itself. The BOT law states as its objective: "to recognize the indispensable role of the private sector as the main engine for national growth and development… for the purpose of financing the construction, operation and maintenance of infrastructure and development projects normally financed and undertaken by the Government." The BOT law governs national and local government PPP, and covers a wide range of sectors.[66]

PPP institutions

The Coordinating Council of the Philippine Assistance Program (CCPAP) had been created in 1989 primarily to mobilize overseas development assistance funds. The Philippines Assistance Program (PAP) overseen by CPAP had been established by the U.S. Congress to support economic growth in the newly-restored democracy of the Philippines. PAP was designed to foster private sector involvement was seen as a primary drive of economic growth.

In 1993, the CCPAP Chairman was designated Presidential Action Officer for the promotion of BOT, and the CCPAP-BOT Centre was created. CCPAP was effectively an autonomous Unit, attached to the President's Office. The 1994 revision to the BOT law (RA No. 7718) formally gave CPAP responsibility for coordinating and monitoring BOT-type projects and for taking a more proactive approach to attracting private investment.

In 1999, CCPAP was reorganized into the Coordinating Council for Private Sector Participation (CCPSP), and its authority expanded to cover a wider range of PSP, including joint venture agreements (JVA), concession arrangements, service and management contracts, and other forms of public-private partnership.[67]

CCPSP has stated its mission as "effective, efficient, and sustainable infrastructure systems and services to meet the basic needs of every Filipino and spur economic development. Its mission: to actively promote public-private partnership as a cornerstone of the national infrastructure development plan."[68] Its functions include, primarily:

- Project development, through technical and financial assistance to line agencies and Local Government Units (LGUs).

[66]According to the Law, BOT projects may include "power plants, highways, ports, airports, canals, dams, hydropower projects, water supply, irrigation, telecommunications, railroads and railways, transport systems, land reclamation projects, industrial estates or townships, housing, government buildings, tourism projects, markets, slaughterhouses, warehouses, solid waste managment, information technology networks and database infrastructure, education and health facilities, sewerage, drainage, dredging, and other infrastructure and development projects as may be authorized by the appropriate agency pursuant to this Act."

[67]The BOT Centre is not responsible for privatization. A separate government agency, the Privatization Office, is responsible for divestiture. With the change in law, BOO do fall under the purview of the BOT Centre but any BOO requires presidential approval.

[68]From CCSP: Championing the Philippines BOT Law (www.jp3.org/pub/publication014.htm).

– In their technical assistance role, they prescreen for technical and financial feasibility. The BOT Centre also helps to train line agencies and LGUs in project origination and project development.

– Financial assistance for prefeasibility or feasibility studies may be provided through a Project Development Facility (PDF). The PDF is a revolving fund. If the PDF funds a study and the study results in a project that reaches successful financial close, the winning bidder reimburses the PDF.

In 2002, Executive Order (EO) 144 reorganized and converted the CCPSP and its Technical Secretariat to the BOT Centre, and transferred CCSP's attachment from the Office of the President to the Department of Trade and Industry.

What Has the BOT Centre Achieved?

As of September 2005, the BOT Centre had assisted bringing 60 transactions, worth roughly US$18 billion, to financial closure. Power sector transactions represented roughly 40 percent of the total value of transactions, and the US$7 billion privatization of Manila's Metropolitan Water Works and Sewerage System (MWSS) represented another 40 percent. The remaining 20 percent of total transaction value is made up of several smaller transactions in the transport, information technology, property development, and health sectors.

Table A.5 the total number and value of privatization, PPP, and PPP transactions completed

Table A.5
Summary of PPP Activity in the Philippines

	Privatization proceeds (All Sectors)[69]	Private sector purchase of, or investment in public infrastructure[70]
Total Number	101	80
	(US$ millions)	
Total Value	4,257	36,877
Average per Project	42	460
Annual Average	327	2,169
As percent of average GDP during same time frame	0.51 percent	3.30 percent
Ranking versus other countries with 15-25 years' data (World)	51st out of 105	26th out of 124
Ranking versus other countries with 15-25 years' data (Region)	3rd out of 8	7th out of 16

Source: Calculated with data on privatization proceeds from the World Bank Privatization Database (http://rru.worldbank.org/privatization/), data on PPI from the World Bank PPI Database (ppi.worldbank.org), and IMF World Economic Outlook Database, September 2006 (http://www.imf.org/external/pubs/ft/weo/2006/02/data/index.aspx).

[69] 1989-2001 time period

[70] 1988-2004 time period

in the Philippines. Table A.5 also indicates average annual privatization proceeds and PPI value as a percentage of average nominal GDP during the same time period. These ratios are then used to rank the Philippines versus other countries, in the world, and in the East Asia and Pacific Region.

PPP activity has been robust in the Philippines, but the quality of the contracts has been variable.

The many IPP agreements signed during the 1990s succeeded in attracting roughly 4,000 MW of new capacity but at substantial cost to state-controlled energy companies because of take-or-pay clauses and fuel cost guarantees that limited the private sector's exposure to demand and fuel input cost risk far beyond IPPs offered in other countries.

PPP activity in the Philippines has also seen some well known failures, including the world's largest water sector PPP, the Maynilad Water concession. Suez subsidiary Ondeo won the concession in 1997, just before the East Asian financial crisis caused a massive depreciation of the Philippine Peso. Suez sought and was granted multiple tariff increases but Maynilad's financial problems, and severe service quality problems, persisted. Maynilad stopped paying the government its concession fees in 2001 and in 2003 Suez sought to terminate the contract in 2003. A court of arbitration eventually ruled that Maynilad indeed owed its concession fee, but the company could not pay. The government converted the debt from the unpaid concession fees into equity, and now owns most of Maynilad.

Another failed PPP is the concession agreement with the Piatco consortium (30 percent owned by Fraport AG of Germany) to build and operate Terminal 3 in the Ninoy Aquino International Airport (NAIA). Construction of NAIA Terminal 3 was nearly complete when the government had the concession contract declared null and void. The government found the contract to be unfavorable to the government, given the strategic nature of the investment.

Analysis: The BOT Centre's Role in Context

The Philippines PPP program originated, primarily, out of an immediate need to find funds for power sector investment in the late 1980s/early 1990s. As the need for power sector and other infrastructure investment persisted, the government broadened and accelerated the PPP program, and enjoyed considerable success in attracting investment. Unfortunately, however, for all of its strengths, the BOT Centre's role in promoting quality PPPs remains in question. As the previous section shows, the BOT Centre has been involved in only some of the PPI activity in the Philippines.

The BOT Centre was created with a number of objectives that should have improved the quality of PPP arrangements, and probably did. Line agencies do indeed look to the BOT Centre for its expertise in project development and, to some extent on contract negotiation and when necessary, renegotiation.

The BOT Centre has no formal mandate to approve or deny a line agency or LGU's ability to pursue a PPP transaction. As one former BOT Centre official commented, the BOT Centre cannot even compel line agencies to submit reports. The informal influence of the BOT Centre peaked under President Ramos and has declined since it has been subsumed to the Department of Trade and Industry.

The BOT Centre formally serves as advisor to the Investment Coordination Committee (ICC), an interministerial committee that evaluates the fiscal implication of major projects and makes recommendations to the President.[71] Transactions can

happen without the BOT Centre's involvement and some do (especially local government transactions), however, if a project reaches the ICC, the ICC often recommends that the line agency seek assistance from the BOT Centre.

The BOT Centre's role has focused much more on technical assistance with project development than on its other formally defined roles. In practice, its has been less effective in its role as contract monitor, because its monitoring function vis-à-vis the implementing agencies has never been clearly defined. The BOT Centre therefore monitors contracts on an ad hoc basis only. The BOT Centre has no leverage to change contracts but has often been asked to advise implementing agencies when contracts ran into trouble.

The BOT Centre does appear to have been successful in providing technical assistance on project development. Philippines line agencies and LGUs have much less knowledge of how to determine whether a project is worth pursing, and how to procure it. The BOT law does provide some guidance on procurement rules, and the BOT Centre did produce a project development manual and draft contracts.

Much less certain is whether, given the quality of PPP contracts signed in the Philippines, the BOT Centre's advice has been good enough, and whether the implementing agencies have put the BOT Centre's expertise to best use.

8 Public and Private Infrastructure Investment Management Center (PIMAC), Republic of Korea

The government of Korea created the Private Infrastructure Investment Center of Korea (PICKO) in 1999 as part of an effort to improve the results of its existing PPP program, and provide badly needed resources for infrastructure investment in the wake of the East Asian Financial Crisis.

Private companies have been investing in transport infrastructure in Korea since the late 1990s. Since the late 1960s, the government relied on private investment to build and expand some expressways, but did not allow private firms to operate or manage the infrastructure.

In 1994, PPP was first introduced in Korea with the "Promotion of Private Capital into Social Overhead Capital Investment Act". The Act sought to establish clear policies and procedures for PPI in all sectors, and extended the possible role of the private sector to one that included operation and management of infrastructure.

Under the new Act, 21 national projects and 13 local government infrastructure projects were launched. Some observers have noted that progress in developing some of these projects proved slower than expected. By 1998, 31 of the local government projects were under construction, but only 5 of the central government projects had made it that far. Concessionaries had been designated for only nine projects. The slow progress of PPI during those years has been attributed to a lack of transparency, excessively complicated procedures, insufficient incentives for the private sector, and unattractive risk sharing arrangements.[72]

The 1997 East Asian Financial Crisis lowered the private sector's appetite for PPI in Korea, and made it increasingly difficult for the government agencies to pay for infrastructure from their own budgets. The government therefore tried to accelerate PPI in

[71]ICC members include the Secretary of Finance as chairman, the National Economic and Development Authority Director-General as co-chairman, and the Executive Secretary, the Secretaries of Agriculture, Trade and Industry, Budget and Management and the Governor of the Central Bank of the Philippines.

[72]Hahm, Junglim. "Private Participation in the Infrastructure Program of the Republic of Korea" *Transport and Communications Bulletin for Asia and the Pacific*. No.72, 2003. pp. 57-75.

December 1998 with the Act on Private Participation in Infrastructure. The new Act:

- Expanded the types of PPI allowed. The 1994 Act had allowed for Build-Transfer-Operate (BTO) and Build-Own-Operate (BOO) only. The 1999 Act allowed for Build-Operate-Transfer contracts, and allowed the government to consider unsolicited proposals as well as those projects the government had already planned.
- Made mandatory the completion offeasibility studies
- Defined several incentives for which private sector developer could be eligible, including:
  - A system of project evaluation that awards extra points to project developers who submitted an unsolicited proposal for a project on which they later competed to win
  - Minimum revenue guarantees (MRGs) that guarantee the private partner a minimum level of operating revenue
  - A foreign exchange risk guarantee that caps a private partner's foreign exchange risk by allowing for tariff increases or government subsidies for an adverse currency fluctuation of more than 20 percent
  - A number of tax exemptions or partial exemptions
  - A provision that allows the public partner to buyout the private partner in the case of *force majeure*.
- Created an infrastructure fund for the purpose of investing in projects
- Created PICKO to:
  - Provide technical assistance to government agencies and the private sector. The creation of PICKO responded in part to a perceived need that the government agencies were lacking expertise in PPI evaluation and development
  - Promote infrastructure projects and educate the private sector about PPI in Korea
  - Review unsolicited proposals as requested by line agencies
  - Review feasibility studies and bidding documents
  - Assist in proposal evaluation and negotiation of agreements
  - Assist in formulation of government policy on PPI

PICKO was a member of the Private Investment Project Committee under the Ministry of Planning and Budget. The committee also includes members from the line agency for the sector in which the PPI will take place. The committee has primary responsibility for selecting projects, evaluating proposals, and negotiating agreements. The committee is also responsible for drafting the Annual Plan for PPI, which establishes the country's infrastructure priorities.

A 2005 amendment to the Act on the Private Participation in Infrastructure further broadened the scope of Korea's program to include Build-Transfer-Lease (BTL) schemes and introduced VfM tests. The Public and Private Infrastructure Investment Management Center (PIMAC) was established as a merger of the Private Investment Center of Korea (PICKO) and the Public Investment Management Center (PIMAC) by the amendment of the Act on PPI in January 2005. The PIMAC is an affiliated body of the Korea Development Institute (KDI), which is a leading government research institute.[73]

[73]PIMAC was founded under KDI in January 2000, to focus on research and managment of public investment projects

PIMAC consists of three divisions: the Public Investment Evaluation Division, the Private Participation in Infrastructure (PPI) Division, and the Program Evaluation Division. There are three teams in each of the PPI divisions: BTO, BTL, and PPI Promotion teams.

The multiple roles played by PIMAC can be classified into three categories:

- Researcher: PIMAC formulates the annual PPI plans and conducts both theoretical and practical studies on PPI
- Policy Advisor and Project Manager: PIMAC develops PPI projects, reviews and executes feasibility studies of PPI projects, executes VfM tests, supports formulation of RfPs, and assists in tendering and negotiation
- PIMAC consults foreign investors and helps attract foreign capital to the Korean PPI market. PIMAC also develops and promotes education programs on PPIs, and manages a PPI database for the country.

What Has PIMAC Achieved?

Korea's PPI program was introduced in August 1994, but hit its stride in January 1999. As of August 2006, 154 projects had been carried out under BTO, BOT, or BOO schemes. Of those projects, 64 are under operation, 50 are under construction, 18 are preparing for construction, 15 are under negotiation, and 7 are under review. One hundred thirty-one BTO projects have been awarded concession agreements. These projects have total investment costs amounting to roughly US$41.4 billion. Also, 106 BTL schemes, first introduced in 2005, are in the pipeline as of August 2006. These projects are worth roughly US$6 billion.

Private sector investment in infrastructure has risen considerably since 1998, from roughly US$500 million, to US$2.8 billion in 2005. As the government's expenditure on infrastructure has increased during this period, the government's share of total infrastructure investment has decreased from 95 percent to 86 percent.[74]

Analysis: PIMAC's Record in Context

As discussed in the previous section, PPI activity in Korea has picked up considerably since the government created PICKO (PIMAC's predecessor) in 1999. The government appears to have successfully understood the shortcomings of the PPI program between 1994 and 1999, and tried to address those problems.

PIMAC appears to have met the objectives established for it. Through its role in the Private Investment Project Committee, PIMAC has proven an essential player in the evaluation of feasibility studies and bids. Line agencies rely on it for assistance in tender preparation, evaluation and negotiation of contracts. In only rare instances (a politically motivated bridge project, in particular) have projects gone ahead without PIMAC's approval.

[74]"Korea's PPI System and Key Policy Issues". Presentation by Dr. Young-Geun Lee, Director General for PPI, Ministry of Planning and Budget, Republic of Korea. 2006.

Documentation of the PPP program and tender process, much of which has been prepared by PIMAC, receives high marks from public finance experts. Fitch Ratings said in a recent report, "The level of documentation at the concession agreement level is sophisticated by global standards. More impressively, the level of recognition and cross-reference between concession and financing documents is very strong."[75]

Korea has continued to finetune the incentives offered to private partners in 1999, as the country's financial conditions have changed. Korea continues to have infrastructure needs of roughly US$15 billion per year, but the government's fiscal priorities have increasingly shifted toward health and welfare expenditure. The private sector has gradually filled a larger and larger portion of the needed investment in infrastructure.

There are also signs that Korea has been attentive to the quality, and not just quantity of PPI agreements. The 2005 revisions to the PPI Act scaled back MRGs, and abolished MRGs completely for unsolicited projects, and made clearer the currency risk sharing arrangements.[76] The Ministry of Planning & Budget has said it intends to place increased emphasis on monitoring the performance of existing PPI projects for their macro- and micro-economic impact, and using those lessons to drive further changes in the PPI strategy.

It remains to be seen how PIMAC, will fare in its new location under the Korean Development Institute, but initial assessments by those familiar with PIMAC feel the change has given the PPP Unit more independence from the line agency proponents of PPI projects.

PIMAC has so far proven to be a central player in Korea's relatively successful PPP program.

[75]"Korea's Infrastructure Finance Program: Partnerships at Work". Fitch Ratings Project Finance Special Report. November 1 2005.

[76]Since January 2006, MRGs are applicable only to solicited projects. For the first 5 years, 75 percent of revenues are guaranteed and for another 5 years, 67 percent are guaranteed. For unsolicited projects or projects that earn less than 50 percent of projected revenue, MRGs are no longer applicable.

THE WORLD BANK

1818 H Street, Nw
Washington, DC 20043 USA
Internet: www.worldbank.org

PPIAF
PUBLIC-PRIVATE INFRASTRUCTURE ADVISORY FACILITY

PPIAF Program Management Unit
c/o The World Bank
Mail Stop Number H3-260
1818 H. St. NW
Washington, DC 20433 USA
Tel: +1-202-458-5588
Fax: +1-202-522-7466
Email: ppiaf@ppiaf.org