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GRIDLINES

Sharing knowledge, experiences, and innovations in public-private partnerships in infrastructure

Designing and using public-private partnership units in infrastructure

Lessons from case studies around the world

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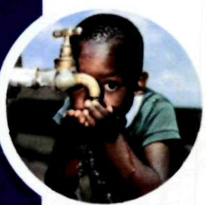

Public-private partnership (PPP) units for facilitating and managing infrastructure investments have existed for years in many developed countries. Driven in part by growing infrastructure investment, these units have also recently begun to proliferate in the developing world. While governments often seem eager to create such units, not everyone in the global PPP market is convinced of their value. An assessment of eight PPP units around the world examines whether these institutions have contributed to successful public-private partnerships—and if so, under what conditions.

There has been much enthusiasm recently among governments and donors for establishing units to implement or advise on public-private partnerships—or PPP units. Albania, the Arab Republic of Egypt, Malawi, Mozambique (Maputo), Nigeria, Tanzania, and Turkey have all recently considered establishing PPP units.

The growing popularity of these institutional structures is reminiscent of a similar trend in the 1990s—establishing independent regulatory agencies for infrastructure services such as water and electricity. But where developing countries simply transplanted successful regulatory models from the United Kingdom or the United States, results were mixed. Good regulation requires painstaking institutional design and a clear understanding of a country's needs, capacity, culture, and administrative traditions. Similarly, there is no "one size fits all" approach to designing or using PPP units.

Before designing a PPP unit, governments first need a clear understanding of the problems they face in implementing their PPP program. These problems should drive the design of the PPP unit. And where there are problems that a PPP unit cannot address, governments should consider other institutional solutions, or resolve the issues before creating a PPP unit.

A qualitative assessment of eight PPP units around the world—in Bangladesh, Jamaica, the Republic of Korea, the Philippines, Portugal, South Africa, the United Kingdom, and the Australian state of Victoria—provides lessons on effective design and use of these institutions (PPIAF and World Bank forthcoming).

Why governments create PPP units

Understanding the role of PPP units requires an appreciation of the role of PPPs in achieving governments' policy objectives. In many of the case studies the government initially used PPPs to attract private finance as a way to overcome fiscal constraints. But governments that have a long history with PPPs have recognized their usefulness in achieving more specific objectives: net present value of money as measured against services the government typically provides on its own, and optimal risk transfer to private partners (rather than maximum risk transfer to the private sector). (See box 1 for some useful definitions.)

But achieving such objectives is no simple task. Managing a successful PPP program requires a range of specialized functions, and not all governments will have those functions or the ability

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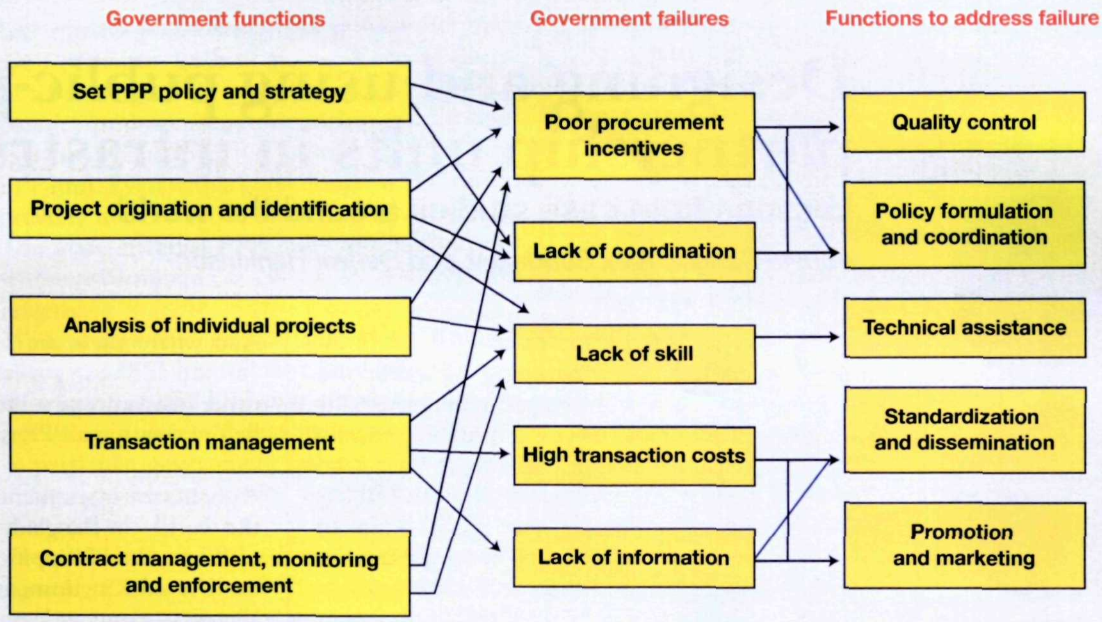
FIGURE 1

Functions PPP units can provide to address government failures in PPP programs



Source: PPIAF and World Bank forthcoming.

PPP units need to be designed to address specific government failures

to perform them effectively (figure 1). Where governments have weaknesses in the functions needed to effectively manage a PPP program—or "government failures"—they often create a PPP unit to help in correcting those failures. The need to address specific government failures is one reason PPP units need "custom" designs.

In principle, each of these functions could be performed by a line agency, a coordinating agency (such as a cabinet office), or external consultants. There are many institutional solutions to integrating these functions that don't involve creating a PPP unit. But if a specialized organization is to be created to address the government failures, it must be able to perform these functions effectively. That means it needs to be given the necessary executive authority rather than simply act as an advisory body.

Not all functions related to PPP procurement need reside in a single PPP unit. The United Kingdom now has a separate PPP task force in Treasury as well as its technical assistance and project development body, Partnerships UK. In addition, some line ministries have their own internal project development teams. When responsibilities are divided among agencies in this way, it is important that the lines of responsibility be formalized and clear to public and private partners alike. If no government agency is well suited to correcting the government failures in a country, responsibility for correcting them should fall to the PPP unit.

How have PPP units fared?

The case studies show that in countries with successful PPP programs, the PPP units that contributed to that success performed more of the functions necessary to correct government failures. Table 1 summarizes the results of this comparative analysis. As the table shows, there is a high positive correlation between how successful a country's PPP program was and how many of the functions necessary to correct government failure a PPP unit performed.

The units that were least effective—those in Bangladesh, Jamaica, and the Philippines—are in countries where indicators of government effectiveness are weak relative to other countries in the sample (PPIAF and World Bank forthcoming). That should be no surprise: in countries where most government institutions perform poorly, new institutions are also likely to perform poorly. This

BOX 1

Defining some useful terms

A *public-private partnership (PPP)* is an agreement between a government and a private firm under which the 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. Agreements may range from service or management contracts to concession agreements and privatization and cover widely varying activities, not just those in infrastructure sectors.

A *PPP unit* is any organization designed to

- **Promote or improve PPPs by trying to attract more of them or by ensuring that PPPs meet such quality criteria as affordability, value for money, and appropriate transfer of risk.**
- **Have a lasting mandate to manage multiple PPP transactions, often in multiple sectors. This distinguishes PPP units from PPP teams working in a single ministry or committees created to work on specific transactions.**

A *successful PPP unit* is one that contributes to a successful PPP program.

A *successful PPP program* is one that fosters successive PPP transactions that

- **Provide the services the government needs.**
- **Offer value for money as measured against public provision of services (with value for money measured by the net present value of lifetime costs, including the cost of bearing risk).**
- **Comply with general standards of good governance and with such policies as avoiding corruption, being fiscally prudent, and complying with relevant legal and regulatory regimes.**

conclusion may seem obvious, but it has some significance for the decision about how to set up a PPP unit. It suggests that a PPP unit may not be able to provide an "island of excellence" within a government that is generally poorly performing.

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 in its jurisdiction. To summarize from the case studies:

- In Bangladesh much PPP activity has happened without the involvement of the Infrastructure Investment Facilitation Center (IIFC), suggesting that IIFC has had little impact on the quantity or quality of PPPs.
- In Jamaica the National Investment Bank (NIBJ) was the principal driver of the privatization program and therefore had much influence over the PPP program—though it ultimately answered to the Cabinet, a political body.
- In the Philippines, much as in Bangladesh, significant PPPs have happened without the BOT Center's involvement in recent years. The power sector PPPs in which the BOT Center was directly involved in the 1990s varied in quality and have left the country with significant liabilities.
- In Portugal Parpública is the principal driver of PPP policy and has close links to the Treasury, which has driven fiscal reform since 1999. Parpública has had much to do with improving the affordability and value for money of PPPs while allowing the deal flow to remain relatively high.
- In South Africa the Treasury's PPP unit plays a central part in developing PPPs. Though sometimes criticized as too restrictive, the unit was created with an inherently restrictive aim of ensuring that PPPs happen—but not as a way of avoiding budgetary constraints. Its regulations, its manual, and many of its completed transactions are cited outside South Africa as examples of good practice.
- In the United Kingdom and the Australian state of Victoria, two of the world's largest markets for PPPs, the PPP units—Partnerships UK and Partnerships Victoria—are central to the PPP programs.
- In Korea the Public and Private Investment Management Center (PIMAC) plays an essential part in evaluating feasibility studies and bids. Private participation in infrastructure has picked up considerably since the government created PIMAC's predecessor, the Private Infrastructure Investment Center of Korea (PICKO), in 1999.

Less effective governments tend to have less effective PPP units

Lessons

The case studies point to some lessons on the appropriate design and use of PPP units in infrastructure—and some reasons for the positive

correlation between successful PPP programs and the use of PPP units.

- *Less effective governments tend to have less effective PPP units.* Lack of political commitment to advancing a PPP program, or lack of transparency and coordination within government agencies, will reduce the chances of success for a PPP unit. Even with a good design, a PPP unit is unlikely to be effective in such an environment. The least effective PPP units are in countries whose governments as a whole are relatively less effective.
- *Without high-level political support for the PPP program, a PPP unit will most likely fail.*
- *Relatively successful PPP units directly target specific government failures.* A clear focus on responding to particular government failures is essential in ensuring the success of the institutional solution selected.
- *The authority of a PPP unit must match what it is expected to achieve.* If a PPP unit is expected to provide quality control or assurance, it needs the authority to stop or alter a PPP that it perceives to be poorly designed. But this executive power must be coupled with a mandate to promote good PPPs—or the unit may simply wield a veto without adding value.
- *A PPP unit's location in the government is among the most important design features,* because of the importance of interagency coordination and political support for a PPP unit's objectives. In a parliamentary system of government a PPP unit is most likely to be effective if located in a strong ministry of finance or treasury. In nonparliamentary systems, such as the presidential system of the Philippines and many Latin American countries, the best location for a PPP unit is less clear. In a country with a strong planning or policy coordination agency, that agency might make a natural home for a PPP unit.

Policy makers and their advisers need to consider these fundamental lessons before turning to any of the more detailed considerations about a PPP unit, such as its structure or staffing. Thinking about PPP units should begin with questions about what government failures need to be addressed and then whether (and, if so, how) the unit can be given sufficient influence to address those failures.

Reference

PPIAF and World Bank. Forthcoming. *PPP Units for Infrastructure: Lessons for Their Design and Use.* Washington, DC: PPIAF and World Bank.

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