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## 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 Párpública 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

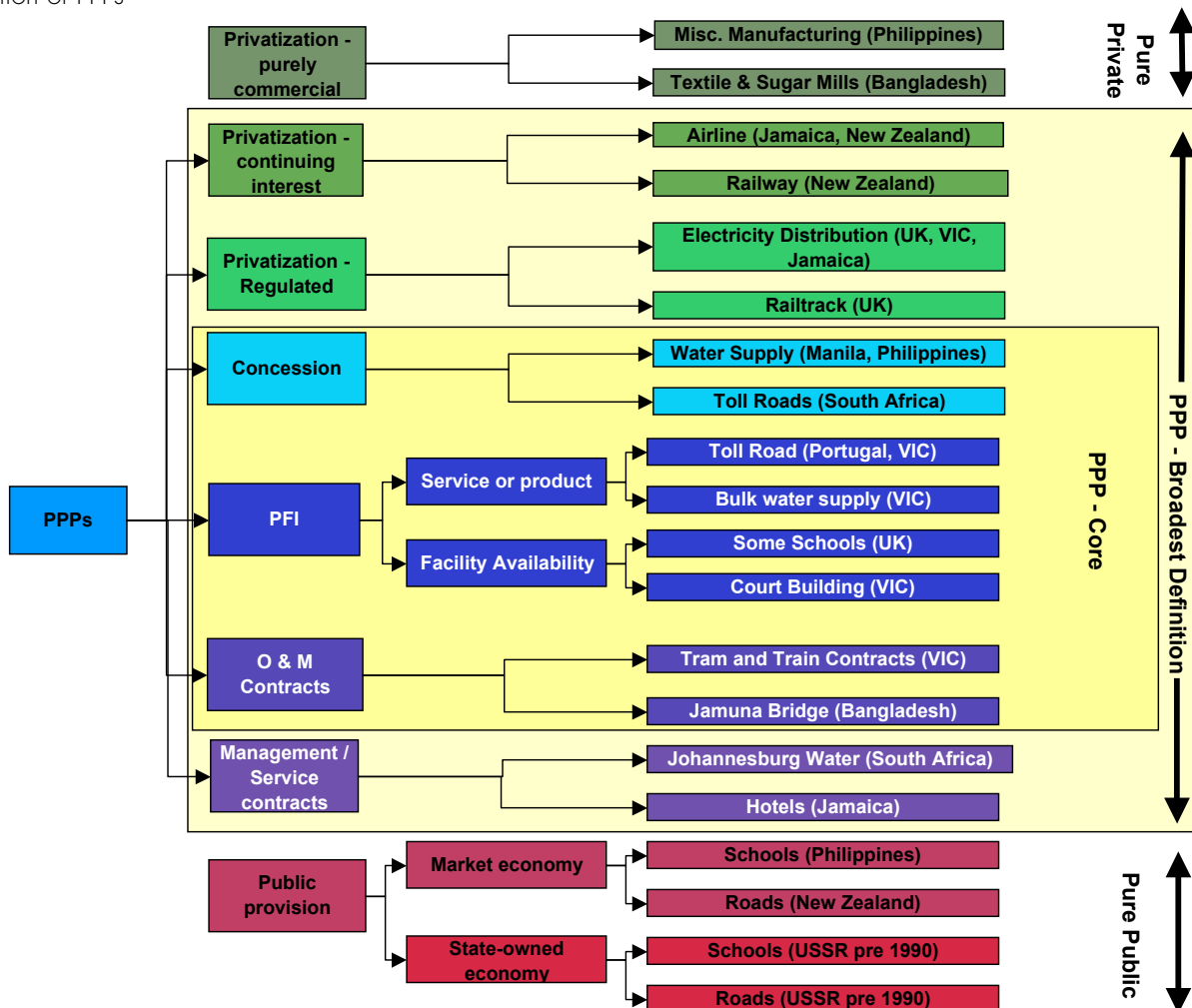
a template for identifying government failures, and considering in each country's specific context whether a PPP Unit would best address those failures.

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 Figure 1, 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).

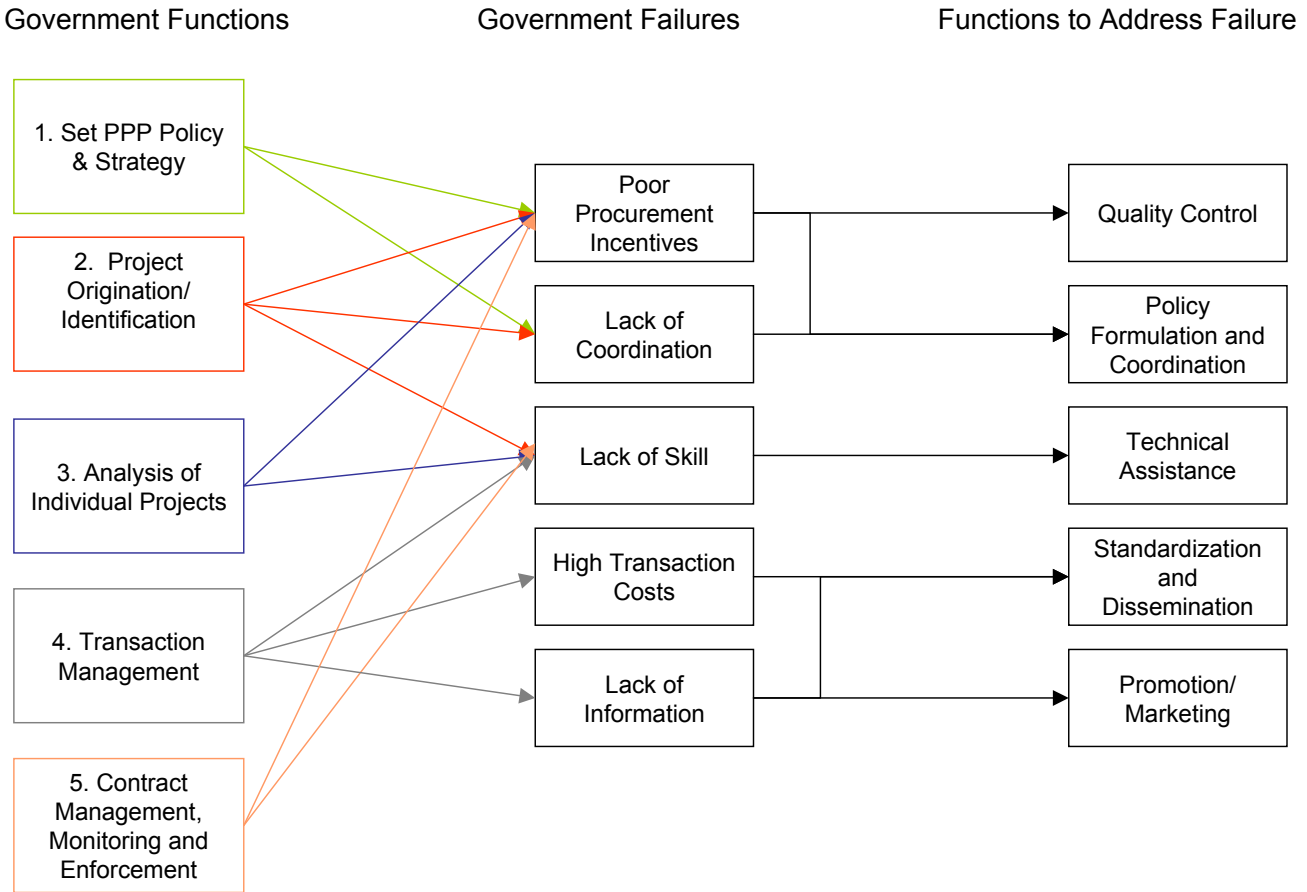
### **Why Governments Create PPP Units**

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	<b>Little success.</b> Haripur and Megnaghat show that transparent, quality PPPs are possible, but quality has worsened since.	<ul style="list-style-type: none"> <li>▪ 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.</li> <li>▪ 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.</li> </ul>	No apparent effect on private participation in infrastructure in Bangladesh.	<b>None to few:</b> <ul style="list-style-type: none"> <li>▪ Technical assistance</li> <li>▪ Policy formulation, but no authority to implement</li> </ul>
Jamaica, NIBJ	<b>Little success,</b> given Jamaica's high public debt. PPPs have worsened the situation.	<ul style="list-style-type: none"> <li>▪ Secure greater efficiency</li> <li>▪ Reduce fiscal drain</li> <li>▪ Optimize government's management resources</li> <li>▪ Secure enhanced access to foreign markets, technology, and capital</li> <li>▪ Broaden the base of ownership in the society</li> </ul>	No, especially not the reduction in fiscal drain.	<b>None to few.</b> Managed some transactions, and attempted coordination, but generally ineffective as real power was never effectively delegated
Portugal, Parpública PPP Unit	<b>Much success.</b> 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	<b>Some:</b> <ul style="list-style-type: none"> <li>▪ Policy formulation</li> <li>▪ Technical assistance</li> <li>▪ Quality control</li> </ul>
South Africa, Treasury PPP Unit	<b>Much success,</b> 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	<b>Some:</b> <ul style="list-style-type: none"> <li>▪ Technical assistance</li> <li>▪ Quality control</li> <li>▪ Policy formulation</li> </ul>

*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	<b>Much success,</b> given Korea's budgetary constraints and infrastructure needs	<ul style="list-style-type: none"> <li>▪ 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.</li> <li>▪ Promote infrastructure projects and educate the private sector about PPP in Korea</li> <li>▪ Review unsolicited proposals as requested by line agencies</li> <li>▪ Review feasibility studies and bidding documents</li> <li>▪ Conduct VfM tests</li> <li>▪ Assist in proposal evaluation and negotiation of agreements</li> <li>▪ Assist in formulation of government policy on PPP.</li> </ul>	Yes	<b>Most to all:</b> <ul style="list-style-type: none"> <li>▪ Technical assistance</li> <li>▪ Quality control</li> <li>▪ Policy formulation</li> <li>▪ Promotion/ marketing</li> </ul>
The Philippines, BOT Centre	<b>Some success,</b> given the country's infrastructure needs, but IPPs of 1990s left significant contingent liabilities.	<p>Technical assistance, PPP promotion/marketing, and monitoring</p>	<ul style="list-style-type: none"> <li>▪ Yes, but not for all PPPs.</li> <li>▪ The BOT Centre has done very little monitoring, and on an ad hoc basis.</li> </ul>	<b>Few to none:</b> BOT Centre was assigned many functions but is really effective only in its technical assistance role
UK, Partnerships UK and Treasury Taskforce	<b>Much success</b>	Generally, to improve the quality of PPPs and shift focus away from financing infrastructure to VfM and risk allocation.	Yes	<b>Most to all:</b> <ul style="list-style-type: none"> <li>▪ Technical assistance</li> <li>▪ Quality control</li> <li>▪ Policy formulation</li> <li>▪ Promotion/marketing</li> </ul>
Victoria, Australia, Partnerships Victoria	<b>Much success</b>	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.	<b>Most to all:</b> <ul style="list-style-type: none"> <li>▪ Technical assistance</li> <li>▪ Quality control</li> <li>▪ Policy formulation</li> <li>▪ Promotion/marketing</li> </ul>

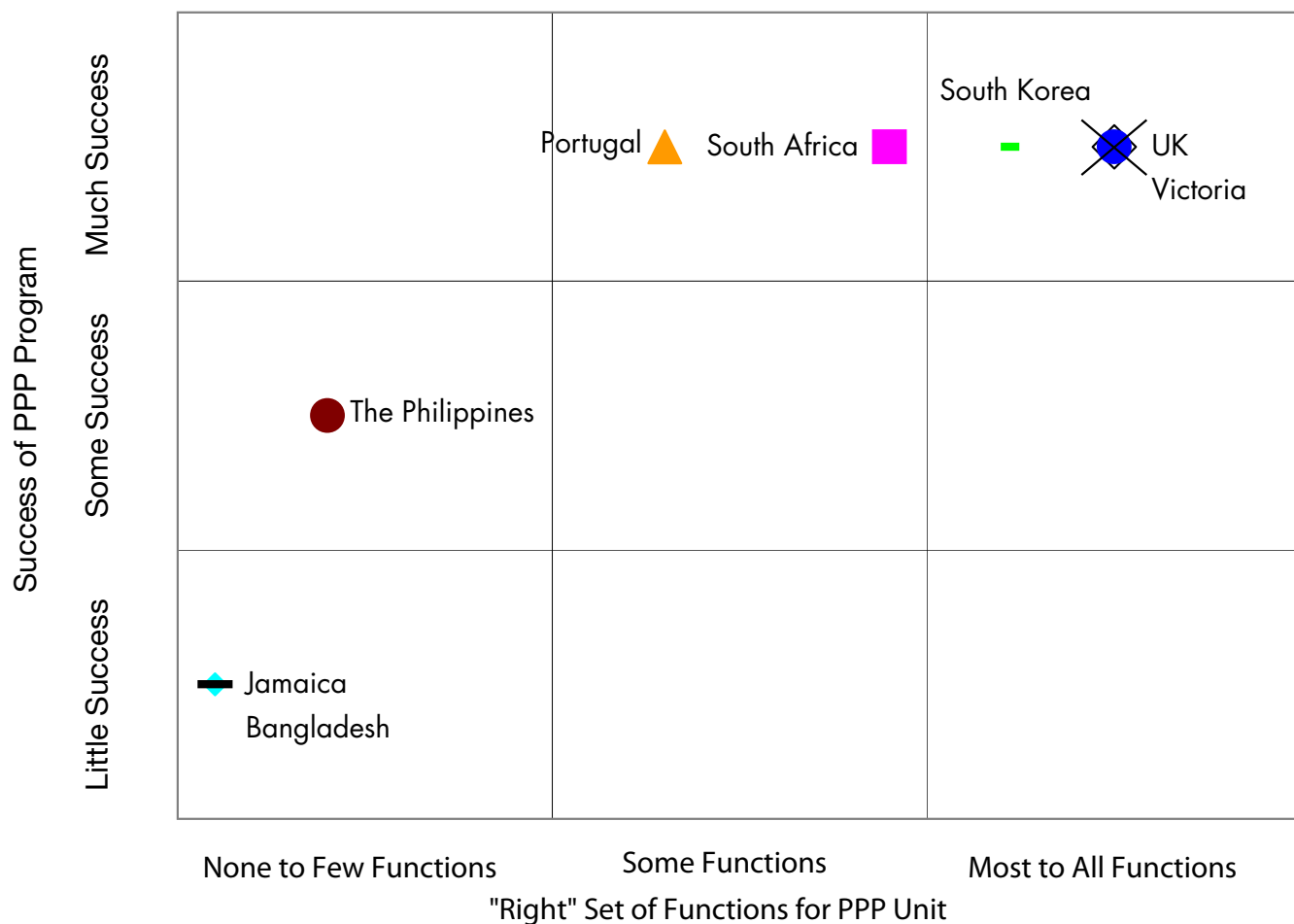
Figure 3 shows the relationship between the range of functions performed by the PPP Unit and the success of the PPP programs. The vertical axis rates the success of each country's PPP program during the time in which the PPP Unit existed, as having "Little Success," "Some Success," or "Much Success." 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<sup>1</sup>. This should be

**Figure 3**  
Correlation of PPP Unit Success with Functions



<sup>1</sup>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.

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## Acronyms

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