International Experience in Establishing and Operating PPP Units

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Purpose of the review

• Presentation of five case studies of formation of PPP Units, complemented by international trends
• Objective is to draw key lessons applicable to St Petersburg (good practice and pitfalls)
• Analysis is part of a broader advisory service of the World Bank to help the City of St Petersburg establish its organization entity for the management of PPP
Recent Trends of Successful PPPs

- PPP are seen less as a way of raising funds outside the State balance sheet than a means to achieve efficiency gains.
- Lack of feasibility studies, limited government support and non-transparent procurement contributed to failures in early PPP programs in CEE/SEE.
- Central Ministry coordinating PPP provides some sort of budget support to fund project development costs.
- PPP programs are more integrated with overall infrastructure planning vs. ad-hoc approach of selecting projects.
- Pilot PPP projects have been used to test the operational and support system before engaging into a full PPP programs.
International experience shows an increasing focus on institutional framework

- Experience shows that some failures could have been avoided with better project design, coordination or more transparent procurement
- Specialized PPP Units have been created in response to weaknesses in managing PPP program effectively
- The role of PPP Units varies from a pure advisory one to being actively involved in project identification and design, procurement and contract monitoring
- Several PPP units have evolved over the years and there is not a preferred design

**Government Failures**

- Poor Procurement Incentives
- Lack of Coordination
- Lack of Skills
- High Transaction Costs
- Lack of Information
International trends related to PPP Units

• Although many countries have now established such units, several had an active program for years before that.
• However, the creation of a PPP unit is neither a necessary or sufficient condition for a successful PPP program.
• PPP units tend to struggle when:
  – Senior politicians do not support the PPP program.
  – Procurement of infrastructure and capital works is not transparent or competitive.
  – Coordination within Government is weak.
Presentation of 5 Case Studies

**National**
- United Kingdom (UK)
- South Africa

**Sub-national**
- State of Victoria (Australia)
- Hungary
- Czech Republic
Presentation of Case Studies

- International Trends in PPP Units
- Presentation of Case Studies
- Lessons Learned on PPP Units
- Summary and Conclusion
UK Central PPP Unit: Partnership UK

**Role**
• Created in 2000 by the UK Government to provide the public sector with improved client capability and the be available to support implementation of PPP programs
• PUk works exclusively with public sector and is mainly a project development agency
• PUk responds to demand from public sector clients and works on very large or innovative projects
• All PPP transactions must be given Treasury approval at several stages before final contract signature

**Location**
• Partnership UK is a separate entity, structured as a PPP (51% private sector, 49% Government)

**Structure/Governance**
• PUk has evolved from a Treasury Task Force to a separate Unit
• PUk Board constituted by non-executive Chairman, 4 executive directors, and 7 non-executive directors
• Advisory Council oversees the work of PUk and ensures it follows its charter
UK Central PPP Unit: Partnership UK

Staffing
- PUk staff, including Chief Executive, is composed of private and public sector experts, with strong skills in project finance (finance, legal, etc…)
- The staff also brings market knowledge which is important to test interest of the private sector
- Board of Directors is composed of Executive from the public and private sector
- Advisory Council is exclusively composed of members of the Public Sector

Funding
- PUk charges a fee to the public sector for its services
- Fees are set in Framework Agreements signed with client and renewed every four years
- Fees are benchmarked against private advisory companies

Interface
- Policy Taskforce sits within Treasury and sets guidance on procurement, deal structuring and evaluation
- Treasury’s Project Review Group uses PUk for technical component of review process for local authority projects
- PUk has also set up joint ventures with public authorities (Partnership for Health, Partnership for Schools)
The PPP Unit was created in 2000 as a filter to exclude fiscally irresponsible PPP transactions.

Design of PPP Unit influenced by Treasury PPP Task Team in the UK (focus on VfM, risk transfer, affordability).

Objectives are to make sure (i) all PPPs meet above criteria and (ii) establish framework to protect Government against PPP likely to fail.

PPP Unit is located within the South African Treasury.

South Africa Central PPP Unit

Staffing
- Staff is composed of professionals giving hands-on assistance on sector-specific (health, tourism, …) or function specific issues (legal, financial, …)
- The Unit assigns 1 or 2 internal project advisors to assist line departments from project registration to signing of PPP agreement

Funding
- The PPP Unit is fully funded by Treasury

Interface
- The PPP Unit works closely with the Review and Liability committees of the National Treasury for the approval process and provides technical assistance to Line Department
- The National Treasury has approval rights for local or provincial projects and can make advisory recommendations on local government projects
Australia Sub-national PPP Unit: Partnership Victoria

Role

• Government of Victoria introduced Partnership Victoria (PV) in 1999, following the example of UK, in anticipation of expansion of PPP program (started in 1980)
• Focus is on optimal risk transfer, efficiency maximization and whole-life costs minimization
• PV develops policy and guidelines, promote implementation of best practice and provides specific advice to departments and agencies
• PV used for major and complex capital projects with opportunities for innovation and risk transfer

Location

• The PV unit was designed as a team located within the treasury

Structure/Governance

• PV Unit is located within the Commercial, Infrastructure & Risk Management Group of the Commercial Division of the Treasury
• Treasurer is responsible for developing and overseeing the Partnership Victoria Framework
• Each PPP project remains under the responsibility of the relevant Ministry
Australia Sub-national PPP Unit: Partnership Victoria

Staffing
• Staff including acting Head has extensive private sector experience

Funding
• PV Unit is financed by Government of Victoria

Interface
• Federal Government issued PPP guidelines limited to Federal level projects
• A national PPP Ministerial Forum was created in 2003 to improve policy consistency, coordination and capacity building across regions
Hungary Central PPP Unit

- Hungary was the first CEE country that decided in 1991 to rely almost entirely on private concessions for its highway development.
- Early failures, need to improve efficiency of PPP arrangements and limited institutional memory and capacity contributed to the creation of the PPP unit.
- The PPP Unit was created within the Ministry of Economics and Transport in 2003 with the mandate to create adequate conditions for the introduction of PPP in Hungary.
- An interdepartmental committee was setup in 2003 between the Ministries of Economy and Transport, Finance, Justice, PM office and Central Statistics Office.
- The objectives of the committee are to (i) consider PPP plans prepared and submitted by departments and local government and (ii) monitor the implementation of PPP projects.
Czech Republic Central PPP Unit: PPP Centrum

- PPP Centrum was created in July 2004 to speed up the preparation of legal environment and methodological procedures for PPP
- Initially starting as a knowledge center, its role has evolved to include technical advisory for PPP project identification, preparation, evaluation and monitoring
- PPP Centrum is a joint-stock company, with MoF as the only shareholder, and has been interacting with the public sector on a fee-for-service basis since 2007
- Government policy makes it mandatory for public sector to draw on resources available at the PPP Centrum
- Czech Republic cautious approach seems to have been driven by failed attempts to implement roll base concessions of D5 motorway
- The country is currently in the final stages of PPP framework (Concession Law, PPP Unit, regulations, guidelines, etc...)
- PPP Centrum reports to a Board of Directors and is monitored by a Supervisory Board (with representatives from the MoF, Ministry of Regional Development, Ministry of Labor and Social Affairs, Office of Czech Republic Government...)
Success of PPP Units

PPP Units Associated with Successful PPP Programs

- Partnership UK
- Partnership Victoria
- South Africa PPP Unit

PPP Units not yet successful

- Hungary PPP Unit
- Czech Rep. PPP Centrum

**Partnership Uk**
PPP program contributed to 10% of total public investment in 2004
PPP program represented about 2/3 of all activity in Europe (1994-05)

**Partnership Victoria**
Average savings through PPP is 9% compared to public sector
Only 22% of PPP had run over budget vs. 73% for line agency construction projects

**South Africa PPP Unit**
PPP Unit’s regulations, manuals, and transactions referenced as good practice outside South Africa
PPP Unit supported development of projects while ensuring fiscal impact remained manageable

**Hungary PPP Unit**
Too early to assess impact of PPP Unit
Creation of PPP Unit comes late in relation to early experience, tainted with some failures, of PPP projects

**Czech Republic PPP Centrum**
Ongoing effort to strengthen PPP Framework not completed but Unit contribution acknowledged
Still waiting for a successful PPP project
Role and Powers of PPP Units

- Two main functions common to PPP Units
  - Support regulation/oversight of Treasury over PPPs
  - Technical assistance to line department/ministries
- However, a PPP unit with broader scope tends to perform better
- Line Ministries retain their responsibility of project delivery
- Role of PPP Unit has evolved over time to respond to changing needs (Uk, Czech Rep.)
Location and Structure of PPP Units

- PPP Units either within a central Ministry (often Treasury) or as a separate entity
- Treasury usually keeps strong role in policy and unit control (Board, Advisory Council)
- Location between Ministries depends on focus:
  - Treasury: fiscal oversight
  - Economy: project development and promotion
  - Line Ministry: sector-specific PPP procurement
Staffing of PPP Units

- Attraction and retention of good staff in the PPP Unit is essential
- Even with use of transaction advisors, project advisory requires strong skills in project finance (finance, legal)
- Although not sufficient condition, good staff are likely to be attracted by:
  - Salary scales
  - Functional responsibilities
  - Challenging work environment
- Institutional memory and knowledge transfer to line Ministries/Department is essential for long-term success
- Sub-national units have also the opportunity of sharing staff and experience with other regions (Australia)
Funding of PPP Units

- Separate PPP units charge a fee for service to the public sector while those within a Ministry are fully funded by the public sector.
- Cost recovery does not appear to be a success factor but is dependant on successful track record of PPP projects and good reputation.
- Use of project development facility (Uk, South Africa) to support the hiring of good quality transaction advisers by line department can contribute to better quality projects.
- Funding of PPP unit should allow recruiting and retaining of good quality staff.
More successful PPP units (UK, Victoria and SA) have strong links with Treasury related to project approval.

Even when set-up as a separate entity, PPP unit performance is monitored by a Board or Advisory Council.

Although the sub-national PPP unit benchmarked also maintained links at Federal level for policy consistency, there is a need for stronger coordination.

Implementing Ministries/Department are increasingly in need of support for contract management.
Summary of International Practices

- PPP Units are not a standard requirement for a successful PPP program but rather a Government response to specific needs.
- PPP Units perform a wide variety of roles with the most common being (i) PPP Policy Support and Coordination (ii) Quality Control and (ii) Project Preparation Support (at least until financial close).
- PPP Units with executive power tend to be more effective than purely advisory ones.
- Whether set up within a coordinating Ministry or as a separate entity, PPP Units keeps strong links with Treasury, which retains most of the responsibility for project approval.
- Given project advisory responsibility, capacity building and quality of staff of the PPP unit is an important contributor of the success of PPP programs.
- Funding from public sources seems more appropriate until reputation and successful projects are established.
Additional factors for success of PPP Units

- PPP units are not a miracle cure and less effective governments tend to have ineffective units
- PPP units also tend to struggle when procurement of infrastructure and capital works is not transparent and competitive
- Without high-level political support for the PPP program, a PPP unit will most likely fail
International Experience in Establishing and Operating PPP Units

THANK YOU!

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