

# Initiating a Global Network of Public-Private Partnerships for Infrastructure

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**July 17, 2006**—In June, the Bank hosted its first Public-Private Partnership in Infrastructure days—a gathering of public-private partnership agencies from around the world.

Paul Nomba Um, leader of the program at WBI, said the meeting had two primary objectives: “to initiate a global network among practitioners... and foster an initial dialogue on the common challenges and best practices for public-private partnerships in infrastructure.” Nomba went on to explain that, “public-private partnership agencies worldwide face common problems, and that knowledge sharing among these agencies has not been actively pursued.”



Paul Nomba Um, Lead Specialist of the PPPI Program

The meeting, called PPPI Days 2006, gathered nearly 40 delegates from 23 countries worldwide. The event centered around three main themes: implementation issues, institutional issues, and financing issues. Through seven sessions, participants had the opportunity to share their experiences and gather insights from one another.



Ms. Frannie A. Léautier, Vice President, World Bank Institute

## Challenges

During her opening remarks, World Bank Institute Vice President Frannie Léautier framed the challenge that public-private partnership units are facing. Economic growth is critical to meeting investment needs, but, as Léautier pointed out, “Most of the countries that have investment needs today don’t have the fiscal space” to fill these gaps.

Also, developing countries often have a harder time implementing such programs, which are most successful in economies with a strong local financing market and a strong private sector. Currently about 70 percent of infrastructure investment comes from the public sector, 8 percent from Official Development Assistance, and 22 percent from the private sector. As public-private partnerships continue to evolve based on the experience of governments and development institutions, Léautier continued, they must be designed to ensure that, “each public dollar that is invested in infrastructure leverages a private sector contribution.”

## Reviewing Implementation, Institutional, and Financing Issues

To facilitate the discussions, PPPI Days 2006 divided into the following specific sessions: drives for public-private partnerships (PPPs), PPP unit structure, decentralization and central coordination, selection and prioritization of projects, social and environmental challenges, fiscal risk, and project financing.

## Drivers for Public-Private Partnerships

While fiscal space is a major driver of these partnerships, governments are also eager to rely on them in order to leverage the private sector's managerial strengths, achieve greater value for money in infrastructure investments, and transfer risk to the private sector. In particular, said William Dachs, the PPP Unit Head from South Africa, "...the correlation with the findings in the UK leads us to conclude that such partnerships give much better infrastructure delivery outcomes," in the sense of fewer cost overruns in construction projects. "More importantly," he continued, "PPPs force all projects to take a life-cycle approach, evaluating the total cost of ownership, and taking risks into account, so the end result is that [a country] has facilities and systems that operate efficiently."

## PPP Unit Structures

Unit structures differ substantially from country to country in terms of financing and institutional oversight, and in other ways. In the U.K., Partnerships U.K. is a quasi-private entity that charges line ministries fees for its services.



Delegation from PPP Agencies Worldwide

The South African PPP Unit is under the Treasury department—a common institutional arrangement that the South African unit head, William Dachs, recommends for newly formed PPP units.

In Nigeria, the Bureau of Public Enterprises is a privatization unit that is now taking on a PPP role. Yunana Malo, the Bureau's delegate explained, "The government is pressing forward with a strong political will to see infrastructure is being reformed, so with this kind of balance we are able to have a central body that can clear issues and therefore make sure that is it done the way it is supposed to be done, while allowing ministries to have a say."

## Decentralization and Central Coordination

This session reviewed specific challenges implicit in decentralization and resulted in a resourceful discussion around the main coordination elements between local, state and central governments in designing or implementing PPP programs. In Brazil, the federal government sets the framework for PPPs for the whole country, despite autonomy given to state governments to initiate PPP programs. Other countries, such as Korea or Peru, tackle decentralization differently. Some PPP units also face challenges from line ministries who want greater control over projects that pass through PPP procurement.

## Selection and Prioritization of Projects

Not all projects are suitable for the PPP, and governments should avoid the temptation to "PPP their problems," as stressed by one participant. In the UK, projects are scrutinized carefully to determine if the private sector can bring substantial cost savings and deliver value for money. In most developing countries,

the challenge is in setting priorities and developing a pipeline of viable projects.



### **Fiscal Risk Management**

Discussions on government support to PPP projects often revolve around fiscal risk issues. With a proper fiscal risk management system, government support can act as an incentive for private participation without causing further concerns about future public liability.

Alexander Fleming, Sector Manager,  
WBIFP

This was further emphasized by Jay Hyung Kim, Managing Director, Public and Private Infrastructure Management Center in Korea, in his presentation. He said, “Proper accounting and reporting of the fiscal space implications of PPPs is essential to prevent their misuses and to make increased efficiency.”

### **Project Financing**

Many factors affect a country’s ability to attract investment for public-private partnership projects. Simplifying the procurement process and developing a project pipeline decreases the cost to companies to bid and increases the number of bids these units receive for each project.

At the same time, developing countries with weak financial markets face challenges attracting domestic and foreign financing for infrastructure projects. Of the various factors affecting project financing, Glenn Maguire, Head of Partnerships Victoria said, “the institutional framework is particularly important for political will and support,” and that “people want a good, clean, open process.”

### **Social and Environmental Challenges**

Many public-private partnership projects may adversely impact the natural environment and specific groups in society. If not taken into consideration at early stages of project development, these impacts can raise the future costs of projects and may impose potentially unfair costs on subsections of society.



To prevent these problems, PPP agencies need to interact with civil society organizations from the earliest stages in the planning process. Incorporating environmental concerns into project selection has helped some PPP units ensure projects are awarded environmental permits more quickly.

Mr. Alberto Pasco Font, Chief of Staff, Ministry of Economy and Finance in Peru, said that in his country, “there is a social and communication division within ProInversion that works closely with regional and local communities in promoting projects.” This then allows the agency to fully understand the implications, and therefore, “when the legal framework is not there, you implement into the contract the holes in legislation.”

The PPPI Days 2006 ended with a wrap-up session, during which delegates reflected on the lessons that they have learned. Edward Farquason, Director of Partnership UK, said: "This was a means or mechanism from a public sector side to actually share the experiences as effectively as we might." Elmer Hernandez , from the Philippines, added: "In implementing public-private partnerships, developed and developing countries compete for investors and Foreign Direct Investment. We need to better understand what investors really want."