



## Selected Options for PPP Units (Project Preparation Agencies or Funds, Privatization Agencies, etc.)

### 1. Project focus:

- Infrastructure vs. non-infrastructure (agriculture, tourism, etc.)
- PPPs vs. non-PPP projects
- Cost-recovery vs. non-cost recovery (prisons, schools, etc.)
- Regional, national, sub-national
- Privatization, greenfield, or brownfield PPPs (some or all)

Comment: In some situations, project development facilities must focus on more than one kind of project (e.g., more than just PPPs or infrastructure) to have sufficient deal flow to be sustainable. It is also sometimes argued that if a "PPP unit" is not able to compare PPPs with other options (e.g., full privatization or traditional government public works service delivery), then it is impossible for it to thoroughly assess the advisability of the PPP option.

### 2. Primary Functions:

- Regulate the process of developing projects:
  - All of the steps in the development process vs. some (e.g., feasibility studies, procurement, final contract)?
  - All types of projects vs. some (levels of government, sectors, size)?
  - Prior approvals vs. post audit reviews
  - Assess & control for contingent liabilities
- Facilitate project development (all phases vs. some key phases):
  - Advise on project development
  - Provide funding for development activities (e.g., feasibility studies)
  - Manage/supervise the development process carried out by consultants, on behalf of implementing agencies/ departments/ municipalities
  - Carry out the technical work involved in project development (i.e., actually do engineering & economic feasibility studies using in-house skills)
  - Negotiate and conclude deals
- Financial support for the project:
  - Subsidies (capital or operations)
  - Viability gap funding (until the project is sustainable)
  - Investment in the project (risk capital, equity, debt)
  - Guarantees, moral obligations pledges, etc.

Comment: These are primary functions, usually reflecting the main reason why a unit has been established. To a certain extent, these roles are mutually exclusive because of **conflicts of interest**. Regulation is inconsistent with facilitation as defined here. Regulators often argue that their work "facilitates" transparent, accountable projects, but "facilitation" here refers to deal making, focused primarily on closing deals. Facilitators and regulators probably also should not be investors because of opportunities to structure deals in ways that promote investment returns. "Chinese" walls have been established to separate functions in some facilities, but the effectiveness of the separation is sometimes questioned.

### 3. Secondary Functions:

- Policy support:
  - Comment on policy and regulatory issues
  - Issue guidance / educate re project development procedures
- Train / educate / disseminate:

- Stakeholder consultation
- Public education programs
- Capacity-building for government officials and/or private sector
- Publications/newsletters (e.g., info on projects)
- Post-contract closure roles:
  - Monitor post-closure contract compliance
  - Evaluate project impacts during implementation
  - Exercise residual control over partially privatized enterprises
  - Regulate service provision
  - Assist with, or carry out, contract renegotiations

Comment: These are usually secondary functions, used to supplement in some way the primary functions listed above. **Conflicts of interest** can arise in the assignment of some of these functions as well. For example, formal post-closure project evaluation probably should not be done by facilitators, who have an interest in having their projects seen as well-structured and well-negotiated. Note that conflicts of interest can arise even within some of these basic roles, for example when a government has a shareholder interest in a partially privatized utility, but also must regulate the quality of services delivered to customers—this complicates the post-contract closure role.

#### 4. Organisational set-up:

- Legal status established in legislation or decree?
- Advisory only or legal authority to enforce compliance?
- Location:
  - Within government structure:
    - Sectoral
    - Coordinating agency
    - Cabinet-level
  - Semi-autonomous unit set up as a government-owned company outside of regular government structure (with its own board of directors appointed by government)
  - Separate corporate entity with a completely independent board of directors

Comment: Boards of directors or trustees with private sector representation need strong codes of conduct to avoid the appearance of conflicts of interest. Boards made up exclusively of public sector officials sometimes have difficulties establishing commercially-oriented corporate cultures.

#### 5. Staffing (secondments, contracts, permanent hires):

- Skills:
  - Emphasis on technical skills (to do analysis or transaction work)
  - Emphasis on project management and facilitation skills (e.g., to review, advise on, and/or supervise work of consultants)
- Experience:
  - Expatriate experts
  - Local professionals
  - Civil servants
  - DFI staff
- Leadership:
  - Management skills
  - Political connections & support
  - Reputation for integrity

Comment: Staffing depends on the unit's role, but whatever the role is, government-funded units, even in developed countries, can rarely attract and retain highly skilled technical staff (engineering, finance, etc.). This is not to say that it is easy to recruit and retain staff members who have effective project management and facilitation skills. Secondments or reassignments from other government departments

often do not capture the required skills and commercial orientation. The quality of a unit's leadership is often referred to as a key success factor.

## 6. Operational funding:

- Amounts (sufficient for operations?)
- Sources:
  - General government budget
  - Contributions from departmental / enterprise operational budgets
  - Success fees paid by private partners at the time of contract closure
  - Donors

Comment: Expenses can be quite high even without including project preparation support, because of generally high salaries, travel, etc. Obviously, it is important to avoid setting up a unit that cannot carry out its role because of lack of funding.

## 7. Investment and/or project development funding:

- Objectives of funding support must be explicit and consistent
- Sources of funding? (Public, private, donors; debt, equity)
- Optimal size to achieve impact and diversification?
- Internal money management or contracted-out?
- Standards for mgmt., accounting, reporting, disclosure, codes of conduct, etc.
- Support all phases of project development, or just some?
- Separately managed funds from separate sources?
- Revolving or non-revolving fund?
- Transparent project selection criteria?
- Overlap with other sources of funding?

Comment: It is essential to have highly professional money management and fully transparent project selection criteria to guard against allegations of favouritism and conflicts of interest (which would inhibit donor funding contributions).

## 8. Procedures for project development, appraisal, procurement:

- Advisory only or legal authority to enforce compliance?
- Pre-approval or post-audit approval?
- Rule/regulations:
  - Standardized procedures?
  - Transparent, fully competitive procurement?
  - User-friendly procedural guidance?
  - Carefully documented project development paper trails?
  - VfM & PSC?

Comment: Whether facilitating, regulating, or investing, the facility needs to have standardized, best-practice procedures and project paper trails to maintain quality control and guard against reputational risk problems (e.g., when a supported/regulated project collapses soon after contract closure, or questions arise regarding why a particular project was supported, as opposed to other candidates for support).

## 9. Government Support:

- Published government PPP policies and program description?
- Legislative & judicial support for PPPs (laws relating to bankruptcy, land ownership, investment; functioning courts)?
- Visible executive support from the head of state and senior government ministers?

- Evidence of positive government action to counter constraints, such as holding companies?
- Willingness of government to consider the full range of projects options, from privatization (full divestiture) to PPPs?

## 10. Default Recommendations:

Unless there are compelling arguments to the contrary, the following recommendations represent a reasonable default position regarding PPP units in most developing countries:

Focus:	Brownfield & Greenfield (& divestiture)
Functions:	Regulation (contingent liabilities) not facilitation or investment
Authority:	Compel compliance
Location:	Ministry of Finance (to compel compliance re contingent liabilities)
Staffing:	Project management types + consultants
Legislation:	Not unless absolutely necessary
Expectation:	Deal flow likely to slow down
Dangers:	COI, over-staffing (lack of sustainability)