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# Literature Review: Evaluating the Costs and Benefits of Centralised PPP Units

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# 1 Scope

This paper undertakes a literature review on the value of having a central unit to coordinate Public Private Partnerships (PPPs) and to assess whether there is any literature that is able to adequately provide such evidence. The paper's aim is to identify whether there are any sources of information that can show the value of the PPP Units. The research seeks to answer the following questions:

*Is there any literature that shows the value of using centralised PPP units?*

The review specifically targets research based on the value of Centralised PPP Units, the review does not look at the value of PPPs in general or any other type of PPP arrangement as the review is aimed at providing evidence in terms of decision making to whether to set up, or not, a Centralised PPP Unit.

The review begins by defining PPP Units and describing the role of PPP Units and the varied functions that they carry out (Section 2). The paper then moves on to describe how PPP's and PPP Units manage risk allocation between the government and the private sector, how PPP Units can address failures in PPP programmes, the rationale (i.e. advantages) of setting up a centralised PPP Unit instead of government agencies individually procuring PPP projects and finally describes how the success of PPP Units is measured (Section 3). The review concludes with a short summary of the lessons learned (Section 4).

The Review has found that:

- **No quantitative evidence:** There is very little quantitative evidence of the value of centralised PPP coordination units against ministries or government agencies individually procuring PPP projects. Most of the studies available on PPP Units tend to focus on their role and only carry out brief descriptive analyses of their value.
- **Limited Authority:** The majority of the PPP Units reviewed in the literature do not play a particularly important role in approving or rejecting PPP programmes or projects. Whilst their advice is used in the decision making process by other government bodies, the majority do not actually have any executive power to make such decisions themselves. Hence, when they have more authority their value is seen to be higher.
- **PPP Units differ by country and sector:** Government failures, in regards to PPP units, vary by government. The requirements for PPPs also vary by country and sector and so do the risks involved (i.e. financial, social etc.) for the country government. Hence PPP Units need to be tailored to solve these failures, properly assess risks and be located in the correct government departments where it can command the most power. PPP Units can play a number of important roles in the PPP process, however not all PPP Units will play the same role as their functions have been tailored to individual country needs. In some cases, limits to their authority have curtailed their effectiveness.
- **Implicit value:** The lack of rigorous evidence does not prove that PPP Units are not an important contributor to the success of a country's PPP programme. The literature review does show that whilst there is no quantitative data, there are widespread perceptions on the importance of a well-functioning PPP unit for the success of a country's PPP programme.

To answer the overall question, there is no literature that rigorously evaluates the usefulness of PPP Units. The literature does show that PPP Units should be individually tailored to different government functions, address different government failures and be appropriately positioned to support the country's PPP Programme. Where these conditions seem to have been met, there is consensus that PPP Units have played a positive role in national PPP Programmes.

## 2 Methodology & Definitions

The paper is a desk-based review of a number of articles focussed on the role and functions of PPP Units across the world. The paper includes a review of PPP Units<sup>1</sup> based on three seminal papers upon which most PPP Unit literature is based which review the rationale and functions of PPP Units i.e.:

- Farrugia, C. Reynolds, T and Orr, RJ. (2008) "Public-Private Partnership Agencies: A Global Perspective"
- World Bank (2007) "Public Private Partnership Units: Lessons for their designs and use in infrastructure"
- Sanghi, A. Sundakov, A & Hankinson, D. (2007) "Designing and using public-private partnership units in infrastructure: lessons from case studies around the world"

In addition the review also used the following criteria on internet search engines to discover other sources of information on PPP units:

- PPP Units
- Centralised PPP coordination
- PPP coordination
- Value of PPP Units
- Benefits of PPP Units
- Value of Centralised PPP Coordination
- PPP Units & Risk Sharing/Gatekeeping/Market Development/Government Failure/PPP Policy

Most literature searches pointed to the same set of literature on PPP Units or mentioning PPP Units (see reference section), suggesting that there is not a widespread amount of research on the subject. In order to add further value to the research document, a number of PPP Units across the African continent were contacted in order to assess their direct opinions on the value of the PPP unit, however there were no responses from any of the contacted organisations; hence the review has been solely based on pre-existing research.

In terms of PPP's, the World Bank states that there is no widely accepted, single, definition of what they are, but broadly speaking they are arrangements between public and private sector actors where part of services or works that fall under the responsibility of the public sector are provided by the private sector, through a clear agreement that defines the objectives of the infrastructure or service (World Bank, 2013).

The OECD (2010) defines PPP Units as organisations that have been set up with full, or part government aid aimed at ensuring that the "necessary capacity to create, support and evaluate multiple PPP agreements are made available and reside in government". By 2009, over 50% of OECD members had set up a dedicated PPP Unit. The World Bank (2007) defines a PPP Unit as an organisation that "promotes or improves PPPs. It 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 and appropriate risk transfer."

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<sup>1</sup> Centralised PPP Units and PPP Units refer to the same type of organisation.

Hence, whilst the OECD sees PPP Units as enablers and the World Bank sees them as executors of PPP programmes and activities, the basic concept is that a PPP Unit is a government agency, or a specialised department embedded in a particular ministry i.e. the ministry of finance, that tends to have a lasting mandate to manage multiple PPP transactions, in either individual or multiple sectors. According to Farrugia et al. (2008), PPP Units are broadly divided into three main categories:

- Review bodies which are responsible for project business plan reviews and providing recommendations to decision making institutions based on these reviews.
- Full Service Agencies that (in addition to review activities) provide consulting services to develop PPP markets within their jurisdiction and may offer other services such as the provision of capital.
- Centres of Excellence which compile and disseminate research, information and best practices, acting as a stepping stone for the implementation of a full PPP Unit.

PPP Units can be either fully funded by the government or can derive a percentage of their income from user fees that it charges to other government bodies, although there is a risk that operating under a fee system may push the PPP Unit towards more “business-orientated” activities rather than focussing on the positive outcome of the PPPs (Colverson, 2012).

PPP Units are seen to be different entities from national public works agencies. Whilst public work agencies actively design, finance and implement infrastructure projects, PPP Units steer privately implemented projects towards objectives set up by the government i.e. providing output specifications and supervising private contractors in terms of delivering value for money. PPPs that are undertaken through PPP Units thus require less direct government involvement than projects directly carried out by the government, but shift government responsibility more towards the analysis of the needs of the public. Such analysis is geared at deciding which projects should be implemented, whilst the private sector takes responsibility to execute their construction and operation<sup>2</sup>. As more PPPs are carried out and their complexity increases, governments have decided to create specialised agencies to oversee their PPP operations (Farrugia et al.2008).

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<sup>2</sup> Different types of PPP's will dictate the exact allocation of responsibilities between the government and the private sector. See Annex 1 for a list of different types of PPPs.

## 3 Evaluating the Benefits of Centralised PPP Units

Section 3 looks at the evaluations of the benefits of Centralised PPP Units, the section begins by explaining the functions that PPP Units carry out, followed by a section on how PPP Units help to manage risks in PPP contracts. The following section looks at how PPP Units can help overcome government failures (which, if unattended, can lead to failing PPP programmes or projects). This is followed by a section highlighting the case for PPP Units as well as highlighting some counter-arguments. The final section looks at how PPP Units are evaluated and how PPP Units are considered to be successful.

### 3.1 The Role of Centralised PPP Units

The World Bank (2007) states that governments tend to create Centralised PPP Units as a response to weaknesses in the central government's ability to effectively manage PPP programmes. Different governments suffer from different institutional failures in the PPP procurement process, hence these Centralised PPP units need to address these different issues by shaping their functions to suit the individual government needs. The function, location (within government) and jurisdiction (i.e. who controls it) of dedicated PPP Units may differ amongst countries, but generally these include:

- Policy guidance and advice on the content of national legislation. Guidance also includes defining which sectors are eligible for PPPs as well as which PPP methods and schemes can be carried out.
- Approving or Rejecting proposed PPP projects i.e. playing a gatekeeper role that can occur at any stage of the process i.e. at the initial planning stage or at the final approval stage.
- Providing technical support to government organisations at the project identification, evaluation, procurement or contract management phase.
- Capacity building i.e. training of public sector officials that are involved in PPP programmes or are interested in the PPP process.
- Promote PPPs within the private sector i.e. PPP market development.

**Table 1: Function of PPP Units across the world**

	Policy Formulation & Coordination	Quality Control	Technical Assistance	PPP Market Development	Standardisation and Dissemination
<b>Bangladesh</b>	✓	-	✓	X	-
<b>Jamaica</b>	-	X	-	✓	-
<b>Portugal</b>	✓	✓	✓	-	-
<b>South Africa</b>	✓	✓	✓	-	✓
<b>Rep. Korea</b>	✓	O	✓	✓	✓
<b>Philippines</b>	X	X	✓	O	X
<b>UK</b>	✓	✓	✓	✓	✓
<b>Victoria</b>	✓	✓	✓	✓	✓

✓ = Function Intended and Effective Function, X = Intended but not Effective Function, O = Intended Function but unclear effectiveness, - = Not an Intended Function

Source: World Bank (2007)

The World Bank (2007) shows a breakdown (table 1 above) of the different roles that 8 different PPP Units play, showing that the majority is involved in the PPP policy and coordination process as well as in providing technical assistance. Less common functions include PPP Market development, PPP contract standardisation and quality control functions.

PPP Central Units can take part in the PPP policy making process i.e. the UK Treasury PPP Taskforce and Partnerships British Columbia both formulate national PPP policy guidelines (Istrate & Puentes, 2011). PPP Policy setting activities involve setting the overall policy for PPPs in a country i.e. deciding which sectors to prioritise and which types of agreements (see Annex 1 for PPP agreement types) will be the focus of PPP programmes. PPP Units can provide coordination amongst government ministries that can lead to a coherent national PPP strategy, which may not be achievable if ministries independently set their own sectoral PPP policies.

In terms of technical assistance, PPP Units can help solve one of the recurring issues that PPP programmes tend to face i.e. the lack of adequate skills in the public sector required to properly carry out PPP deals. Required skills include the capacity to assess value for money for PPPs as well as the discount rate of projects. A fundamental skill is to be able to understand the role that the PPP plays in a government's long-term plan, its fiscal consequence and how risk is allocated between the private and public sector as well as the required reforms that the government could carry out in order to ensure its success. Whilst private consultants could potentially carry out some of these roles and activities, it is important for public actors that are involved in the PPP process to understand them as well, in order to properly oversee any private consultants as well as to positively contribute to the process itself. Therefore, PPP Units can be created in order to help develop these technical skills in order to contribute to the PPP negotiating process and provide a focus for authority during negotiations, a role which can be particularly important if multiple ministries are involved in a PPP, i.e. Ireland's Central PPP Unit chairs the inter-departmental group on PPPs or the National Australian PPP forum which coordinates PPPs amongst federal, state and local governments in the country (Istrate & Puentes, 2011).

PPP Units can also be established as a knowledge centre which can provide government agencies with a centralised location for information on the PPP process (OECD, 2008). Bangladesh's IIFC is well rated, in terms of its expertise and is considered to have more expertise in dealing with the private sector than government ministries. Its success in building expertise has been attributed to its capacity to pay more for expertise than other public sector institutions (Farrugia et al. 2008).

PPP Units can also take part in PPP Programme/Project approval activities. The PPP Unit can take a gatekeeping role that means that it chooses whether to approve or reject PPP programmes or individual PPP projects i.e. without the unit's approval the project does not have the permission to go ahead. Under a normal PPP procurement process, it is the ministry of finance (or local equivalent) that traditionally plays such a role and even with a PPP Unit, such a role may still reside elsewhere in the government (Burger and Hawkesworth, 2011).

Burger and Hawkesworth (2011) reviewed the PPP process in 20 countries and found that only in 6 countries PPP Units were responsible for all gatekeeping activities, in one

country it depended on the size of the PPP and in one country they only carried out the role on an *ad hoc* basis whilst for 7 countries the PPP Unit played no gatekeeping activities. Similar results were found by Farrugia et al. (2008) who carried out a review of 8 different PPP Units and found that none of them had the formal capacity to approve new PPP projects since the authority to do so generally tends to fall within other government institutions such as treasury's or ministries of finance. In a review by Dultz et al. (2006), out of the 10 PPP units studied, only five had *de fact* or *de jure* capacity to approve PPPs.

Farrugia et al. (2008) do however state that decision making bodies generally tend to follow PPP Unit review advice, hence they can wield considerable influence (if not power) in the PPP decision making process. Even with the establishment of PPP Units, the need for independent consultants to act as project transaction advisers has not been minimised since most units actively encourage the use of such advisers. i.e. the case of the Bangladesh IIFC which suffers from a lack of formal or informal power and is competing with other parallel agencies that also have PPP procurement responsibilities in other ministries. The average value of PPPs transacted through the IIFC has declined from US\$ 250 million to US\$ 90 million, but this has been attributed to the fact that government agencies are not obliged to use IIFC services or follow any guidelines that it establishes (Farrugia et al. 2008).

Similarly, the Philippines PPP Unit, i.e. the *BOT*<sup>3</sup> may have a set of predetermined roles that seem to give it far reaching power, but in reality it has not played such a role in terms of PPPs since its focus has mainly been on technical assistance, nor is it required to approve any PPP transactions whilst its monitoring function (*vis-à-vis* other implementing agencies) has never been formally defined, which has limited its ability to effectively carry out such a role. The lack of formal control over the PPP procurement process (or even some informal influence) has meant that its effectiveness has been diminished and there is a perception within the BOT that its effectiveness has further declined since it was subsumed into the Department of Trade and Industry in 2002 (Farrugia et al. 2008).

On the other hand, South Africa's PPP Unit has managed to successfully undertake such a gatekeeping role. The unit's objectives are seen to be more limited than for other country PPP units, since they are primarily meant to eliminate poorly designed PPP transactions, but it has been perceived to be quite successful in this role. Two factors are the main contributors to this success. The first factor is the fact that the PPP unit was launched as part of a package of fiscal reforms in the country that made explicit the Treasury's role in approving government agency budgets in regards to PPP transactions. The second issue is the fact that the PPP unit is located within the treasury, which has given it great influence and credibility and means that it is, effectively, the ultimate authority on PPPs in the country. There have, however, been some criticisms on the fact that the PPP Unit is seen to be restrictive, in that it has not been ambitious enough in transferring responsibilities from the government to the private sector nor in addressing the country's infrastructure needs (Farrugia et al. 2008).

In terms of the procurement process, the role of PPP Units can vary greatly between different agencies as well as between different projects in the same agency. Some

<sup>3</sup> See Annex 2 for a list of Case Study PPP Units

agencies (such as Partnership UK) have set up standardised procurement and contract documents which help ministries to independently develop the majority of PPP transactions, whilst other agencies (such as the South African PPP Unit) provide advice on best practices for PPP procurement. In terms of PPP project implementation, most PPP Units take a hands-off approach once the procurement process is finished. A good PPP Unit can positively contribute to a country's PPP programme, as was the case for the Republic of Korea's Public and Private Infrastructure Investment Management Center (PIMAC). PIMAC and its predecessor agency (the Private Infrastructure Investment Centre) have helped to substantially increase the number of PPI projects in Korea, between 1998 and 2005, the value of PPI investments in the country rose from US\$ 500 million to US\$ 2.8 billion, whilst the government's share of investment in infrastructure fell from 95% to 86%. The unit has shown value in its capacity to assist PPP tender preparations, evaluate the feasibility of projects and negotiate contracts (Farruggia et al. 2008).

PPP Units can also carry out PPP Market development activities, which are aimed at improving the climate for PPP transactions that are under an agency's jurisdiction, most agencies do carry out such a role, but it is those agencies that operate at greater "arm's length" from the government that play a greater role i.e. Partnership UK. In countries where there has been a greater private sector response to PPP's (such as in the UK), PPP Units have focused more on the implementation of best practices rather than market development activities. PPP market development activities fall under a number of different categories:

- Fostering business and policy environments aimed at enhancing PPP success
- Providing information for potential bidders on PPPs
- Assist the development of PPP markets in other jurisdictions
- Work with service agencies to develop internal knowledge on PPPs
- Collect and disseminate PPP best practices from previous projects

PPP Units also play a role in the quality control of PPPs. They can act as a first reviewer of potential PPP project proposals. Quality issues can arise if ministries or ministry line agencies promote PPP projects and do not take into account the full fiscal impacts on the government's budget. South Africa's Treasury PPP Unit was specifically created to prevent ministries from following PPP projects that would violate national budgetary guidelines. Another quality control role that PPP Units can play is to verify whether PPP project proposals submitted by the private sector can fulfil the criteria that the PPP was aiming to fulfil. Portugal's Parpublica carries out such technical assessments at the approval phase of a PPP project and provides any technical recommendations, for changes to the proposal, to the country's ministry of finance (Istrate and Puentes, 2011).

The function of PPP units can change over time, as a country's PPP programme changes, its role can shift from an initial focus on policy guidance and regulatory changes to increased focus on ensuring value for money or developing more sophisticated project evaluation methodologies or maintaining political support for the PPP programme (Farruggia et al. 2008). Responsibilities for PPP processes can be divided between different units (i.e. the UK the PPP task force in the treasury and a technical assistance body, Partnership UK). When responsibilities are divided between different organisations, it is important to clearly define each unit's roles and make these roles clear to both private and public partners.

Centralised PPP Units thus carry out a number of functions that make them potentially worthwhile vis-à-vis traditional PPP procurement processes since they can agglomerate skills and expertise, provide a central focus for a country's PPP programme (or even for individual PPP projects) and ensure that any project that is carried out meets value for money, quality and risk sharing criteria.

## 3.2 PPPs and Risk Allocation

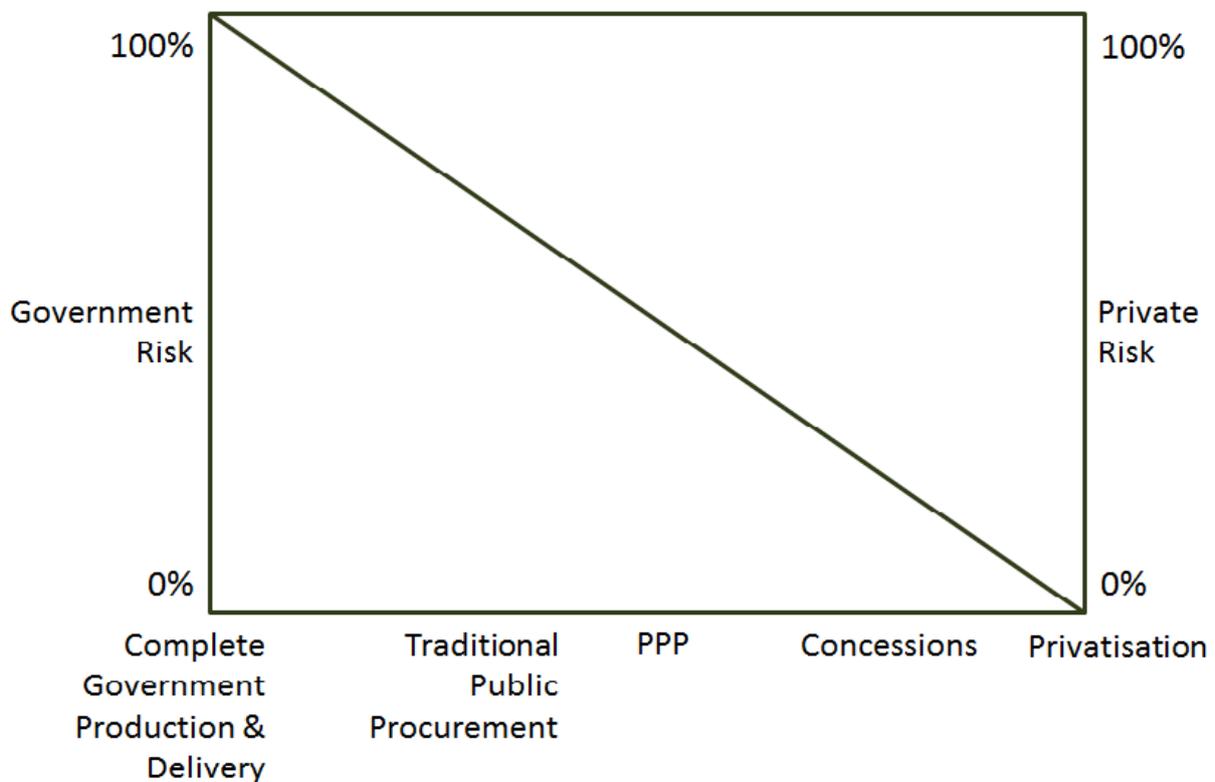
The establishment of a PPP Unit serves as a way to help governments manage risks associated with multiple PPP agreements. With increasing quantities of PPPs, an increase in the value of the PPPs and their (typically) long duration, risk allocation becomes an important factor in ensuring that PPP projects deliver their value for money. According to Monteiro (2007) the basic "efficiency-engine" of any PPP that is carried out should be that the private sector assumes those risks that it is best suited to manage. The OECD (2008) elaborates on this concept, stating that in any PPP it is the agency (be it the public or private partner) that can shoulder the risk at the least cost.

Risk sharing in the government – private sector relationship can be shown to go from 100% government risk where the government provides all the services (including their delivery) to full privatisation, where the private sector takes all the risk (see figure 1 below). PPP's are in the middle of the risk spectrum. Within the PPP category, there are a number of different models which change depending on both the responsibilities of private partners and the ownership of the asset. PPP models of delivery are exposed to risks, but a successful PPP programme will identify, price and transfer risk from the public sector to the private sector i.e. Portugal's Parpublica. Appropriate risk sharing practices can drive companies to finalise PPP projects both on time and on budget. An important part of the PPP process is to achieve value for money with risk sharing analysis being one of the fundamental aspects. Some examples of risks in a PPP process include (Monteiro, 2007):

- *Project error risk*: such a risk can occur due to errors by the public partner during the design phase that can lead to low quality services or cost overruns.
- *Project selection risk*: selecting projects that do not provide value for money or the risk of not selecting the best PPP projects for the required outcomes.
- *Licensing risk*: delayed or overly restricted permits or licences could increase the overall cost of a PPP project.
- *Demand risk*: caused by a service supply that does not match the required or planned levels of demand.

*Renegotiation risk*: risk of accepting back some costs and risks whenever a government has to renegotiate contract terms with a private partner.

**Figure 1: Public & Private Participation classified according to risk and mode of deliver**



Source: OECD (2010)

Monteiro (2007) states that centralised PPP Units can play an important role in risk assessment aimed at fostering efficient risk allocation. If a PPP Unit is given gatekeeping responsibilities (see section above), it can evaluate a PPP in two different phases. It can evaluate any initial feasibility study, assessing the efficiency of the PPP and its overall sustainability; subsequently the PPP Unit can also look at the budgeting requirements of the PPP and decide whether it is a sustainable endeavour to carry out the PPP. Once tenders have been received, the PPP Unit can then assess draft PPP contracts and check that the risk-sharing criteria have been met.

The case of the National Jamaica Investment Bank (NIBJ) shows the importance of proper risk analysis. In terms of outcomes, even though 45 PPPs were implemented in Jamaica between 1989 and 2003, they have not been seen as successful as hoped since they mostly failed to improve operational efficiency and shifting operational risks onto the private sector, several have required large government bailouts and the fact that, for several PPPs, the procurement process was not seen to be transparent and transactions often seemed to take longer than was initially expected. The major faults are seen as the fact the NIBJ did not analyse what the main objective of the PPP should have been, in terms of transferring risks to the private sector or how the transaction would benefit Jamaica. In addition, the government of Jamaica did not properly follow through with its privatisation programme which the NIBJ was meant to oversee; hence its success was also hampered by incoherent government actions (Farrugia et al. 2008).

On the opposite end of the scale, Portugal's Parpublica is seen to carry out its risk assessment role quite effectively. Farrugia et al. (2008) note that the country's PPP programme appears to have been successful over the last 15 years and the unit seems to have played an important part in this success. Since the government established the unit, it has tried to rationalise risk allocation within PPP arrangements by splitting

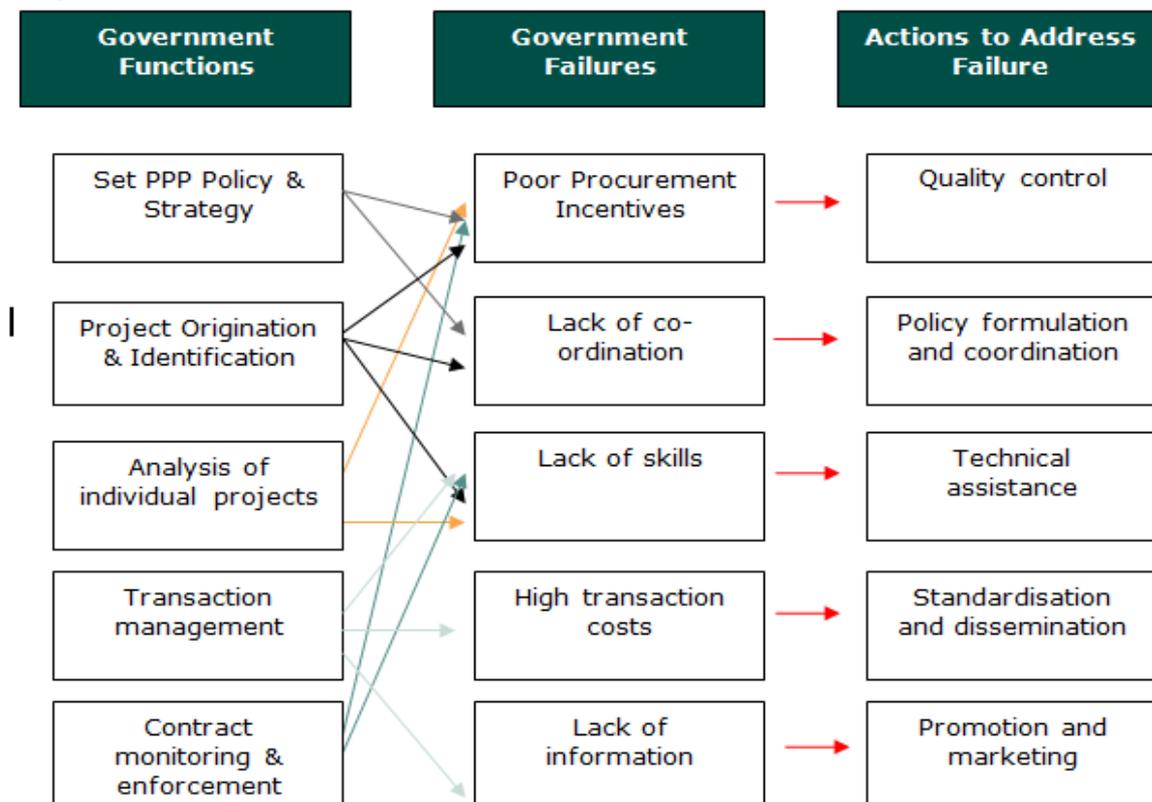
individual PPP projects into multiple, smaller, projects with the aim of better aligning risk, responsibilities and payments to the actual risks in a PPP.

### 3.3 PPP Units, Government Functions & Failures

Sanghi et al. (2007) state that before a country implements, or even designs, a PPP Unit, it needs to clearly understand the problems that the country faces when implementing PPP programmes. According to USAID (2008), failures in PPP programmes in the past have occurred due to:

- Improperly designed PPP Programmes.
- Poor legal frameworks and poor enforcement of policies and regulations.
- Weak institutions, institutional capacity or political commitment to the PPP strategy (or a combination of all three).
- Lack of expertise in government leadership and government officials working within the PPP programme.
- A lack of a thorough economic, financial and technical analysis of the impacts or outcomes of the PPP programme or individual PPP projects.
- A procurement process that is not effectively competitive.
- Poor public communication or resistance from the public to the PPP programme.

**Figure 2: Government function, failures and actions to address failures for PPP Programmes**



Source: World Bank (2007)

Most of these failures could be solved, or avoided, through better project design and more coordination during the procurement process (Cuttaree, 2007). Such failures should thus be one of the main forces driving the design of any centralised PPP unit. It is important to note that centralised PPP units may be able to avoid such failures, but that is not to say that they could not occur, regardless of its existence. If there are issues that such a PPP Unit cannot resolve, then country governments should consider setting up other agencies that may be able to tackle such issues instead of PPP Units, according to Sanghi et al. (2007). Figure 2, above, shows the different government functions, in regards to the PPP procurement process, as well as potential failures (again, relating to the PPP process) that can occur in the government. The third column details the functions that PPP units can play in order to address such failures.

### 3.4 The Case for PPP Units

There are three major arguments in terms of running PPP projects through dedicated, centralised, agencies (as opposed to treating PPPs as individual projects or by individual ministries). The first argument is that PPP units can provide expertise on legal and financing issues as well as expertise on infrastructure which can more effectively negotiate with private sector players in global infrastructure companies, banks and law firms and ensure improved outcomes for the government and better value for money for projects. The second factor is that PPP units can create standardised Requests for Proposals (RFP's) and deal flows, that can help private sector players efficiently familiarise themselves with the PPP bidding process. Such a standardisation can help reduce transaction costs and help attract more global companies to bid, maximising competition, innovation and value for money (in theory). The third argument is that PPP units can provide "institutional memory" in regards to best practices and lessons learned which can help state-private sector relations and practices improve over time (Farrugia et al. 2008).

The PPIAF (2012) states that a number of successful national PPP programmes owed their success to the existence of national centralised PPP Units, such as the South Africa National Treasury PPP unit and Infrastructure UK. The combination of a large volume of PPP contracts and a general lack of understanding across governments (in terms of PPP functions) makes the case for an organised PPP unit against individual PPP contracts. PPP Units can also help up build expertise and experience, in regards to PPPs, and can help carry out a number of functions that include the development of a PPP policy and programme, supporting agencies in the PPP implementation process and disseminating information on PPP programmes.

Evidence from 20 years of PPP programmes across a number of countries, such as the UK and Australia, shows that PPP programmes are most effective when they are managed and implemented by a competent PPP unit which has the authority, technical and financial resources to manage both the policy making process (in regards to PPPs) as well as the project delivery process. Their effectiveness is determined by its ongoing engagement with the PPP programme and the development of the skills of the people engaged in the PPP process. For example, evidence from Australian state PPP units suggests that they have had an important role in facilitating the communication process between PPP project initiators and the private sector as well as between the government and any potential PPP project stakeholders. The Australian PPP units are capable of

anticipating skill shortages for the PPP construction and engineering phases as well as any potential supply issues in capital markets and are capable of adjusting policy in order to deal with any possible market concerns on excessive project costs (Regan, 2012). A review of Partnership Victoria (PV) projects found that those procured by the unit were of higher quality and better value for money than projects procured through traditional means. PV procured projects showed a 9% cost saving vis-à-vis public delivery, with 22% of PV projects running over budget against 73% for PPP's procured directly by state agencies (Farruggia et al. 2008).

In the United Kingdom, the PPP market is one of the most active within the EU. The Private Finance Initiative (PFI) projects are seen to be more efficiently implemented than publicly procured projects i.e. 80% of PFI projects were delivered on time against 30% of publicly procured projects. The PFI framework is also seen to be successful in providing value for money since projects are evaluated on costs and benefits and need to be better placed than the public alternative. The PFI has been criticised for slow project closure times and for a slowing PPP deal flow (which could however be a result of more mature PPP markets in the country). The programme seems to have been successful in increasing the volume of "high quality" transactions in the country and follows the ethos that PPPs are carried out only when the private sector option is estimated to be cheaper than the public sector alternative. Governments that have had well established PPP Units are aware of a number of advantages that they can create i.e. they can:

- Improve and promote PPPs, attracting private investment or ensuring that PPPs meet quality criteria i.e. affordability, value for money and appropriate risk transfer.
- Manage multiple PPP transactions, sometimes within multiple sectors.

**Table 2: Advantages and Disadvantages of Dedicated PPP Units**

Arguments for a Dedicated PPP Unit	Arguments Against a Dedicated PPP Unit
Dedicated PPP Units can help governments to separate policy formulation and PPP implementation functions.	PPP Policy can be created by the same authority that would normally procure PPPs.  A dedicated PPP Unit may not separate policy formulation and implementation if it can directly fund PPPs.
PPP Units can act as knowledge centres on PPP project preparation, negotiation and execution. They can also provide a central knowledge hub, with associated cost savings.	Knowledge of PPPs can be directly supplied by both internal and external project advisors which can be directly appointed by ministries. Advisors can have specific expertise in the relevant sectors or project issues.
PPP creation can be regulated through a PPP Unit in order to ensure that any new PPP meets value, risk and affordability requirements.	Ministries and agencies, together with finance and planning ministries should have enough expertise in assessing the cost-benefits of projects and what should be the political prioritisation of projects.

PPP Units can help ensure that budgetary issues are properly considered and that any contingent liabilities are taken into consideration.	The closer a dedicated PPP Unit is to political leadership, the more susceptible it is to political influence in deciding which PPP projects should be initiated.
PPP Units can help promote the uptake of PPPs within the country by attracting investors and project partners as well as helping to build up trust with existing partners.	Establishing dedicated PPP units could imply an implicit approval of PPPs as a policy tool, which could weaken the use of other (potentially) viable procurement tools.

Source (OECD, 2010)

### 3.5 How is a PPP Unit Successful?

The OECD (2010) states that whilst there have been multiple discussions on the role of dedicated PPP units; there has been no real consensus on how to measure their performance. One method, as discussed by the World Bank (2007), is to use the success of a country's PPP programme as a proxy for the success of its dedicated PPP Unit. However, measuring the success of a dedicated unit, using the success of the PPP programme is problematic. In a large number of cases, the dedicated unit is only one actor amongst many that could determine a PPP programme's success. A dedicated PPP unit's success could also be measured by evaluating the quality of the advice that it gives such as its risk analysis or how much innovation it can provide on projects. Where a PPP unit also plays a gatekeeper role (i.e. green-lighting PPP projects) its success could be measured by both the number of viable PPPs that it has approved as well as the number of non-viable PPPs that it has prevented. However, measuring viable PPPs may be possible, but measuring, prevented, non-viable PPPs may prove to be impossible since they will not have occurred.

Both the World Bank (2007) and Sanghi et al. (2007) see successful PPP units are those that can contribute towards a successful PPP programme i.e. a programme that provides services that governments need, offer value for money if compared to the same services were they ran by the government (value for money can be quantitatively measured by the net present value of lifetime costs, including the cost of bearing risk) and comply with general 'good governance' standards i.e. avoiding corruption, fiscal prudence and compliance with relevant legal and regulatory regimes. Cuttaree (2007) states that there has been a particular trend in PPP Units that have been deemed to be successful i.e. they have been able to:

- Shift the use of PPPs from a way of bypassing government regulations to a method of achieving efficiency gains.
- Providing good and reliable feasibility studies.
- Helping PPP programmes to better integrate with the country's overall infrastructure plan, instead of setting up infrastructure PPPs on an *ad hoc* basis.

Successful PPP units are also able to best resolve government failures in regards to the PPP process. According to the paper there was a highly positive correlation between the success of a country's PPP programme and the amount of functions carried out by PPP units to correct government failures in regards to PPPs. The least effective PPP units were those that were set up by governments where government institutions were least

effective i.e. where government institutions do not perform well, PPP units are also not likely to perform well.

In reality, achieving a successful PPP programme requires a number of specialised functions which the government either does not possess or is not able to carry them out effectively. PPP Units are thus often created to correct such failures and the need to identify weaknesses requires that each unit be tailored to individual government capabilities. PPP units are not theoretically required to carry out such functions, since relevant government institutions (or external consultants) could potentially carry them out, however if these 'failures' are to be addressed, then any relevant organisation needs to be able to carry out these functions effectively, through the use of executive authority instead of acting in an advisory capacity (Sanghi et al. 2007). Sanghi et al. (2007) evaluated the success of a number of PPP Units:

- In Bangladesh most of the PPP activity has occurred without IIFC involvement, suggesting that the IIFC has little impact on the PPP process.
- In Jamaica, the National Investment Bank is the main driver of the country's privatisation programme, but it ultimately answers to the cabinet, which is a political body.
- In the Philippines, a large number of PPPs have occurred without the BOTs participation. BOTs involvement with PPPs in the power sector has mostly resulted in projects of variable quality and have "left the country with significant liabilities"
- The Portuguese Parpublica is the main driver of PPP policy in the country and is closely linked to the national treasury. The unit is cited as improving the affordability and value for money of PPPs in the country whilst maintaining a relatively high deal flow.
- The South African Treasury PPP Unit plays an important role in developing PPPs in the country. The unit's work is often used by other national agencies as "good practice" example due to the good quality guidebooks and material that they produce for the PPP procurement process for centralised PPP Units.
- Partnership UK is seen as being central to the UK PPP programme.
- The Korean PIMAC (and its predecessor, PICKO) plays an important role in evaluating the feasibility of PPPs as well as overseeing the bidding process. Private participation through PPIs has greatly increased since the government created the agencies in the late 1990s.

Sanghi et al. (2007) also highlight some lessons in terms of setting up successful PPP units:

- Governments that are less effective tend to also host less effective PPP Units since a lack of political commitment (i.e. advancing the PPP programme), transparency or coordination within government agencies will most likely cause a PPP to operate sub-optimally.
- High level political support is needed in order to promote a PPP programme and similarly any PPP Unit connected to it.
- Successful PPP units directly target specific government failures.
- PPP units need adequate authority in order to meet their expected aims or outcomes (i.e. what they are expected to achieve), i.e. if its main aim is to provide quality control or assurance then it needs to be able to alter (or block) PPP's as it sees fit.

Executive power needs to be coupled with a mandate to promote good PPP's in order to add value to the country's PPP programme.

- One of the most important design features is the unit's location within government, since coordination between different government agencies and political support for the PPP unit's objectives can be affected by the strength of the ministry or agency that it finds itself placed within.

## 4 Key Lessons

*There is no real quantitative evidence of the value of centralised PPP coordination units*

The various sources of literature lack thorough and widespread quantitative evidence on the value of centralised PPP units. A number of studies has examined PPP units at a case study level and has provided limited qualitative evaluations of their success. The only real example of quantitative evidence comes from the Australian and British experiences (in Farruggia et al. 2008), but none of the other cases studies cite quantitative evidence. Since there are no rigorous quantitative studies, it is difficult to effectively attribute improvements in PPP programmes or PPP deal streams to the work carried out by centralised PPP Units, since most evidence is based on qualitative attribution. This is not to say that PPP Units have not positively contributed to the success of country PPP Programmes, but that there is no rigorous evidence to back up such a statement. Most of the attributed value of PPP units are based on their theoretical functions rather than on an evaluation of how, on aggregate (or individually), PPP units have fared in carrying them out.

*PPP units are often not the ultimate authority in the PPP decision making process.*

The reviewed papers have shown that only a limited amount of centralised PPP units have the authority, either formally or informally, to approve or reject PPP projects. Most of them have not been given executive authority to carry out a “gatekeeper” role. In the reviewed literature, the highlighted case studies showed that the majority of PPP units wielded limited authority and whilst their advice is used in the decision making process by other government bodies, the majority do not actually have any executive power to make such decisions themselves. As the examples of Bangladesh and South Africa (one with limited authority, the other with full authority) have shown, the ability to effectively approve or reject PPPs for Centralised PPP Units, can make the difference between a successful and unsuccessful PPP programme.

*PPP units need to be appropriate to the country and sectoral circumstances in order to meet different requirements.*

Government failures, in regards to PPP units, are different from government to government. The requirements for PPPs vary by country and so do the risks involved (i.e. financial, social etc.) for the country government. Hence PPP units need to be tailored to solve these failures, properly assess risks and be located in the correct government departments. PPP units can carry out a number of different activities which can be best tailored in each country in order to support a successful PPP programme. Activities can include helping oversee or create PPP policy, provide technical advice and support for ministries, act as quality control monitors etc. In some cases, limits to their authority have curtailed their effectiveness, whilst in other cases their location within government has determined their effectiveness (either positively or negatively).

*Whilst there is no measured explicit value of PPP units, studies suggest that their implicit value can be crucial to the success of a country’s PPP Programme.*

Even though there is no rigorous quantitative evidence that proves that PPP units are an important contributor to the success of a country's PPP programme, the literature review does show that there are widespread perceptions on the importance of a well-functioning PPP unit for the success of a country's PPP programme. Where there have been efficient and effective PPP units in operation, with sufficient executive power and in the right government location, there is a consensus that these have helped PPP programmes succeed. Whether they would have succeeded without the PPP unit is unknown, but their contribution is regarded as positive. A number of factors can contribute to the success of Central PPP units, these include the unit's position in government (influencing its authority and power), its ability to positively address government failures in regards to the PPP procurement process, its capacity to build up technical expertise and its ability to appropriately judge PPPs (i.e. quality control and risk sharing).

## Annex 1: Description of Selected Types of PPPs

*Operation-Maintenance (OM)*: The private sector is responsible for all aspects of operation and maintenance. The private sector may not take financing responsibility if it is managing capital investment funds or determining how funds should be used, in cooperation with the public sector.

*Design-Build-Operate (DBO)*: Private sector is responsible for the design, construction, operation and maintenance of the service for a predetermined set of time, before passing it on to the public sector.

*Design-Build-Finance-Operate (DBFO)*: Private sector is responsible for the finance, design, construction, operation and maintenance of the project. In the majority of cases the public sector tends to retain full ownership of the project.

*Build-Operate-Transfer (BOT)*: Private sector is responsible for the finance, design, construction, operation and maintenance of the project for a predetermined set of time. The project is then transferred back to the government at the end of the concession period, most often at zero cost.

*Build-Own-Operate (BOO)*: Similar to a BOT project but the private sector retains permanent ownership of the assets. The government agrees to purchase services for an agreed period of time.

*Source*: Kwak, Chih & Ibbs (2009)

## Annex 2: PPP Unit Case Studies

The case studies in this annex provide a selection of qualitative evidence of PPP Unit Operations and their success. The case studies have been compiled from various sources including Farruggia et al. (2008), OECD (2008), Sanghi et al. (2006), Cuttaree (2007) and the World Bank (2007).

**IIFC:** The Bangladesh Investment Facilitation Center (IIFC) was set up in 1999 to promote and facilitate private sector investment in infrastructure in Bangladesh. The IIFC is meant to play both a policy role as well as an advisory role (for both the government and the private sector) in terms of PPP's in the country. It is supposed to assist ministries in identifying and prioritising potential PPP projects and assist with the procurement process as well as promote private sector participation. Previous to the establishment of the IIFC Bangladesh saw low levels of PPP in infrastructure (PPI), with PPI accounting for 0.45% of average GDP since 1990, ranking 103<sup>rd</sup> (amongst 124 developing countries) and last in the region. Between inception and 2007, the IIFC worked on 25 projects, assisting in awarding 78 licences (for fixed line telephony) as well as for 6 land ports as land entry points.

**NIBJ:** The National Investment Bank of Jamaica (NIBJ) has been responsible for implementing PPPs in the country since 1984. The NIBJ was seen to be relatively ineffective in the 1980s, but its implementation of PPP responsibilities were bolstered (and formalised) in the early 1990's, with the aim of improving PPP implementation efficiency, reduce the fiscal burden on the government, optimise government management resources and secure access to foreign markets, capital and technology.

**BOT:** The Philippines Coordinating Council for Private Sector Participation (CCPSP) was set up in 1999 to oversee joint venture agreements, concession arrangements, service and management contracts and other forms of public/private partnerships in the country. The CCPSP was converted into the Built Operate Transfer (BOT) centre in 2002 but has retained the same mandate. The BOTs mission is to effectively and efficiently oversee the creation of sustainable infrastructure systems in the country, aimed at meeting the economic needs of the Filipino public. The CCPSP is responsible for project development, technical and financial assistance, promotion and marketing of PPP programmes and activities, reviewing and formulating policy frameworks for PPPs and assisting government agencies in monitoring existing contracts, as necessary.

**Parpublica:** The Parpublica PPP Unit of Portugal (part of the Portuguese treasury) was given formal responsibility to design, conceptualise, prepare, tender, adjudicate, modify and audit Portugal's PPP projects in 2003. The unit carries out technical assessments of PPP projects before each procurement phase and provides recommendations and technical assistance for all the country's PPP projects.

**SAT:** The South Africa Treasury PPP Unit was established in 2000 with the aim of eliminating fiscally irresponsible PPP transactions as well as a way to remove arbitrary interventions in the PPP process, creating more investor confidence within the private sector through the implementation of a clear set of PPP rules. Between 2000 and 2007, the PPP Unit carried out 13 transactions within a number of different sectors.

**Partnership UK:** Partnership UK and the Treasury Taskforce of the United Kingdoms are part of the UK government's PPP programme (which has been running since 1996). The programme is based on the Private Finance Initiative (PFI) which is used in a number of different sectors and projects are operated procured using bids that follow the Design Build Finance Operate regulation system. PPP policy and PPP project development responsibilities have been separated in the UK. Partnership UK advises government agencies on PPP projects whilst the policy taskforce is part of the UK Treasury, however they both hold some authority over different stages of the PFI transaction process.

**Partnership Victoria:** Partnership Victoria (within the state of Victoria in Australia) was set up in 1999 as a follow-up to the state's PPP programme which began in the 1980's. Partnership Victoria is in charge of expanding the state's PPP programme, whilst a separate team in the state treasury department is responsible for PPP policy.

**PIMAC:** The Republic of Korea's Public and Private Infrastructure Investment Management Centre (PIMAC) was founded by the Korean government in 2005 in order to improve its pre-existing PPP programme. PIMAC is split into three divisions 1) the Public Investment Evaluation Division 2) the Private Participation in Infrastructure Division and 3) the Programme Evaluation Division. Collectively, the three divisions carry out research, provide policy advice and project management on PPIs as well as market development services through consultations with local and foreign private sector investors.

**UK Highways Agency:** The UK Highways Agency was established in 1994, its functions are aimed at effectively managing taxpayer money by creating links with the private sector and implementing the best practices in terms of the design and implementation of road network infrastructure. The majority of PPP units are government funded; hence recommended PPPs tend to be those that give the best value for money to governments. The focus on value for money and efficiency provides a set of standards against which the PPP unit can measure the success of a PPP project.

**Infrastructure Ontario:** Infrastructure Ontario (created in 2005) combines public and private expertise in order to facilitate the construction or maintenance of public assets. The agency aims to secure financing for infrastructure projects as well as provide loans to public institutions. The agency aims to assess value for money for PPP projects by

**Hungary Central PPP Unit:** Established in 2003 within the country's Ministry of Economics. Its mandate is to create adequate conditions for the introduction of PPPs in Hungary. The objective of the unit was to consider plans prepared and submitted by government departments and local government and monitor the implementation of PPP projects.

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