

# private sector

## Public-Private Partnership Units

### What Are They, and What Do They Do?

**As governments turn to the private sector to provide services once delivered by the public sector, they must learn new skills. An increasingly common way to provide the new capacities needed is to establish public-private partnership units—as new agencies or as special cells within a cross-sectoral ministry such as finance or planning. Making the right choices on what roles such units play, where they are located, and how conflicts of interest are managed is critical in their success. This Note reviews the experience.**

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Governments are turning to the private sector to provide a broad range of services previously delivered by the public sector. These public-private partnerships (PPPs) are often long-term arrangements in which the government purchases services under a contract, either directly or by subsidizing supply to consumers. In other PPPs the government bears substantial risks—for example, by guaranteeing revenue or returns—on projects that sell directly to consumers.

This shift from traditional public sector methods places new demands on government agencies. They need the capacity to design projects with a package of risks and incentives that makes them attractive to the private sector. They need to be able to assess the cost to taxpayers, often harder than for traditional projects because of the long-term and often uncertain nature of government commitments. They need contract management skills to over-

see these arrangements over the life of the contract. And they need advocacy and outreach skills to build consensus on the role of PPPs and to develop a broad program across different sectors and levels of government.

An increasingly common way to provide these capacities is to establish PPP units, as new agencies or as special cells within a cross-sectoral ministry such as finance or planning. Making the right choices on what functions these units should perform and how they should interact with line agencies responsible for service delivery will be critical to ensuring that they both add value and fit into existing governmental processes.

#### What do PPP units do?

A review of international practice shows that these PPP units may be asked to perform a wide variety of roles (table 1). Most provide informa-



tion and guidance on PPPs to government departments. This can include general resources on PPPs, such as international experience and customized guidance on the preparation of PPPs. This guidance can include standard contracts, concession agreements, or contract clauses and detailed procedures for identifying, evaluating, and procuring PPPs.

In a few cases PPP units do no more than perform this information and guidance role. The Canadian federal government created an agency, the P3 Office, to promote the benefits of PPPs and to act as a resource center, developing guides and “self-help” tools. But in some cases, such as in Ireland, agencies that aid project preparation do not issue guidance material.

Many PPP units provide advisory support and funding to line departments and subnational agencies developing PPPs. This usually involves PPP unit staff acting as resource people, but it can include additional funding to pay the costs of transactions advisers. In some cases PPP units play a leading role in closing the transaction and receive compensation for deal closure.

A critical question here is what role PPP units should play in relation to line departments. For departments that develop a large number of PPPs, building up their own PPP capacities makes sense. In the United Kingdom the Prison Service and the Highways Agency, which have many projects, both have a dedicated Private Finance Initiative (PFI) team. In Pakistan the Private Power Infrastructure Board was created to facilitate private investment in power generation. For departments with far fewer deals, building up PPP capacities may not be economic. Local authorities in the United Kingdom that implement PFI school and hospital projects rely on support from central bodies.

Timing also matters. A PPP unit can assist a line department at the start of its program, when the department lacks experience. But line departments that helped pioneer PPPs may have more experience than a newly created PPP unit. In these cases the PPP unit needs to take care not to slow the more experienced agencies, though it should ensure that they properly address critical issues (such as affordability and value for money).

**Table** Functions of cross-sectoral PPP units

1	Information and guidance		Advisory support and funding			Approval	
	Resource center (dissemination)	PPP guidance material	Intensive project-specific advice	Funding for PPP preparation <sup>a</sup>	Role as project developer <sup>b</sup>	Role in contract monitoring	De jure or de facto approval power over PPPs
Andhra Pradesh, India: AP Infrastructure Authority	✓	✓	✓				✓ <sup>c</sup>
British Columbia, Canada: Partnerships BC	✓	✓	✓		✓	✓ <sup>d</sup>	
Gujarat, India: Gujarat Infrastructure Development Board	✓	✓	✓	✓	✓	✓ <sup>d</sup>	✓
Ireland: National Development Finance Agency	— <sup>e</sup>	— <sup>e</sup>	✓		✓ <sup>f</sup>		
Italy: Project Finance Unit	✓	✓	✓				
Netherlands: PPP Knowledge Center	✓	✓	✓			✓	
Philippines: BOT Center	✓	✓	✓	✓		✓	✓ <sup>g</sup>
South Africa: PPP Unit, National Treasury	✓	✓	✓	✓			✓
United Kingdom: Partnerships UK	✓	✓	✓	✓	✓	✓ <sup>d</sup>	✓ <sup>h</sup>
Victoria, Australia: Partnerships Victoria	✓	✓	✓			✓ <sup>i</sup>	

a. Funding for consultants working with the line department or local government.

b. Involves greater responsibility than for an adviser and fees based on some measure of performance (such as closing of a deal).

c. All PPPs must be referred to the state's Infrastructure and Investment Department, which may then refer them to the AP Infrastructure Authority for clearance.

d. Contract management role can be requested by clients (line departments and local governments).

e. The central PPP unit provides general guidance and policy material.

f. Gives project-specific advice and carries out the procurement of PPPs in health, justice, and education. Line agencies are responsible for procurement in other sectors.

g. Plays a role in approval through membership in the Investment Coordination Committee.

h. Prepares a report for each local government Private Finance Initiative project that goes to an interdepartmental committee for approval.

i. Monitors contract management by line agencies and gets involved where major issues arise.

Finally, PPP units often play a role in the approval of PPPs developed by line agencies. This often involves providing input into decisions made by others rather than having direct clearance authority. In South Africa the Treasury relies on the PPP Unit to assess whether line agencies and provinces can meet the costs of proposed PPPs within their future budgets. The PPP Unit is involved at three points: after the feasibility study, before the bidding documents are issued, and before the contract is signed. In other cases the link is less direct. In the Philippines, for example, the BOT Center is just one member of an interagency committee that approves build-operate-transfer (BOT) projects.

Still, this oversight role is potentially the most important one for a PPP unit. In some countries, such as South Africa, the unit's primary role and motivation is to scrutinize the quality, affordability, and expected fiscal cost of proposed PPPs. In South Africa the clear regulatory process for PPPs has helped the PPP Unit perform this role. Another way to make guidance binding is through the requirement to use model contracts developed by the PPP unit—or to ensure heavy scrutiny by the PPP unit if they are not used.

#### **Where should PPP units be placed?**

Where PPP units primarily screen PPPs, assess value for money and affordability to the government, or disseminate good practices, they often take the form of a cell or group within an existing government agency. That agency is often the finance ministry or treasury, reflecting concerns about a need to strengthen the understanding and monitoring of the fiscal costs of PPPs. In some cases the agency is the planning ministry.

Where PPP units are to provide transactions support, their ability to buy in these skills from the private sector and provide the right incentives to staff to close deals requires close attention. One option is to establish a unit within a ministry and rely on long-term consultants, as with South Africa's PPP Unit. Another option, creating greater independence from the government, is to set up the unit as an autonomous entity, attached to but not fully part of the government bureaucracy, as with the Philippines'

BOT Center or Pakistan's Private Power Infrastructure Board. A third approach comes from Canada, where Partnerships British Columbia is a government-owned company. It is overseen by a public-private board and offers salaries outside the normal civil service ranges to attract people with key financial and transactions skills.

A fourth way is to set up a joint venture company owned in part by private shareholders. Such units often receive performance-based payment, linked to deal closure, for example. Partnerships UK, established in 2000, is 51 percent owned by the private sector and focuses on structuring and negotiating the commercial aspects of PPP projects. Several state governments in India, including Karnataka and Rajasthan, have established joint ventures with private financial institutions to promote and develop PPP transactions.

One overriding consideration, particularly at the start of a PPP program, may be the potential benefits of placing the PPP unit where it will have high visibility, strong influence, and clear political backing. For example, the United Kingdom's PFI program received a substantial boost with the establishment of the Treasury Task Force.

#### **How should conflicts of interest be handled?**

Risks of a conflict of interest arise with cross-sectoral PPP units that both provide input into the approval process for PPPs and play a role in identifying and preparing projects. Conflicts also can arise if a PPP unit promotes or assists in developing projects and then is asked to carry out ex post evaluations. The best solution may be to split the functions. But early in a PPP program, when capacities are in short supply and policies are being developed, there may be some benefits from having the same group provide input into both the development and the approval of transactions.

In South Africa the PPP Unit faces a potential conflict of interest because it provides both transactions advice for projects and advice that feeds into the Treasury's approval process. To address this potential conflict, for projects for which the unit provides transactions advice, approvals are sought from other groups in

Treasury. In British Columbia the Treasury retains approval powers rather than delegating them to Partnerships British Columbia. Partnerships UK sometimes supports local governments in PPP transactions and has a role in the approval of local government PPPs through the submission of a report to an interdepartmental committee, but the two activities are carried out by different staff. Another layer of scrutiny can be added by bodies such as audit authorities. In the United Kingdom the National Audit Office has undertaken a number of reviews of the government's PPP program.

Possibilities for conflicts of interest are probably greater where PPP units are public-private joint ventures and where success fees are paid for closing transactions. These cases call for careful structuring of the arrangements for corporate governance. Private sector participation is added to orient the unit toward private sector modes of thinking and working, but the unit still must maintain the policy perspective and objectives of the public sector. Partnerships UK has an advisory council, made up entirely of members from the public sector, that approves the selection criteria Partnerships UK uses in deciding which projects to become involved in.

Clearly, a public-private unit generally should not issue PPP policies nor play the main role in assessing the costs of or approving PPPs. A public-private unit that provides transactions support therefore needs to be complemented by capacities to perform these functions elsewhere (typically in the finance ministry).

### **What role do national PPP units have in subnational PPPs?**

In many countries subnational governments make heavy use of PPPs. Should national PPP units play a role in these transactions? In practice their role is strongly determined by the legal and fiscal relationships between the national and subnational levels of government. In the United Kingdom national agencies provide advisory support to local authorities, and a central government interdepartmental committee chaired by Treasury approves most local government PFI projects. In South Africa a primary motivation for creating the PPP Unit was to pro-

vide oversight of, and improve the quality of, provincial government PPPs.

Countries with greater decentralization see less of a role for a national unit in subnational PPPs. In Canada several provinces (such as British Columbia and Quebec) have their own cross-sectoral PPP unit. The federal government agency, the P3 Office, merely acts as a resource center and promotes the use of PPPs. In Australia the national government has virtually no role in state-level PPPs and instead has focused largely on PPPs for services for which it is responsible. State governments develop PPPs for the services for which they are responsible, with little involvement by the national government. The states have even established their own information sharing structures, with a PPP forum for government policymakers and a PPP working group, for the heads of PPP agencies, to coordinate the pipeline of PPP projects and contractual approaches.

### **Note**

This Note is based on material from World Bank, "India: Building Capacities for Public-Private Partnerships" (South Asia Region, Washington, D.C., 2006).

## **viewpoint**

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