Chapter 1

An overview of dedicated public-private partnership units

Public-private partnerships

Defining public-private partnerships

There is no standard definition of what constitutes a public-private partnership. The OECD (2008) defines a public-private partnership as:

> an agreement between the government and one or more private partners (which may include the operators and the financers) according to which the private partners deliver the service in such a manner that the service delivery objectives of the government are aligned with the profit objectives of the private partners and where the effectiveness of the alignment depends on a sufficient transfer of risk to the private partners.

Within this relationship, the government specifies the quality and quantity of the service it requires from the private partner.[1] The private partner may be tasked with the design, construction, financing, operation and management of a capital asset and the delivery of a service to the government or the public using that asset. The private partner will receive either a stream of payments from the government or user charges levied directly on the end users, or both. If the government is also responsible for a stream of payments – as differentiated from a user fee and other revenues – to the private partner for services delivered, these may depend on the private partner's compliance with government quality and quantity specifications.

Principal to this definition is the transfer of risk from the government to the private partner. Risk is identified, priced and either retained by the public sector or transferred to the private partner through an appropriate payment mechanism and specific contract terms.[2] Risk should be allocated where it can be best managed. Risk should not be transferred to the private partner at any price for the sake of transferring risk alone. Risk transfer to the private partner may increase value for money, but only up to the point where it creates the incentive for the private partner to improve efficiency. Beyond that point, the value for money for the government may diminish as greater levels of risk are transferred to a private party.[3] Under this definition of public-private partnerships, other issues that arise in definitions – *e.g.* the different services that may be transferred to the private partner in the contract, the type of relationship between the different parties that government wishes to convey, and the length and/or material value of the contract – are of secondary importance.

Risk can be divided in two ways:

- endogenous *versus* exogenous risks; and
- legal/policy/political *versus* commercial risks.

The distinction between endogenous and exogenous risks draws attention to what can and cannot be controlled. Endogenous risks are the drivers of efficiency in public-private partnerships. Exogenous risks are not controllable by the project participants, *e.g.* natural disasters, wars and civil disorders. This therefore includes *force majeure*.

The second distinction to be made is between legal/policy/political risks and commercial risks. Legal/policy/political risks are those caused by government actions, *e.g.* new legislation, new government priorities, changes in the political landscape that may change construction or operating costs and subsequently, the project's value for money. This is the beyond the scope of control of a private partner and it is inefficient to transfer it so. In a sense, this risk is exogenous to the private partner and endogenous to government.

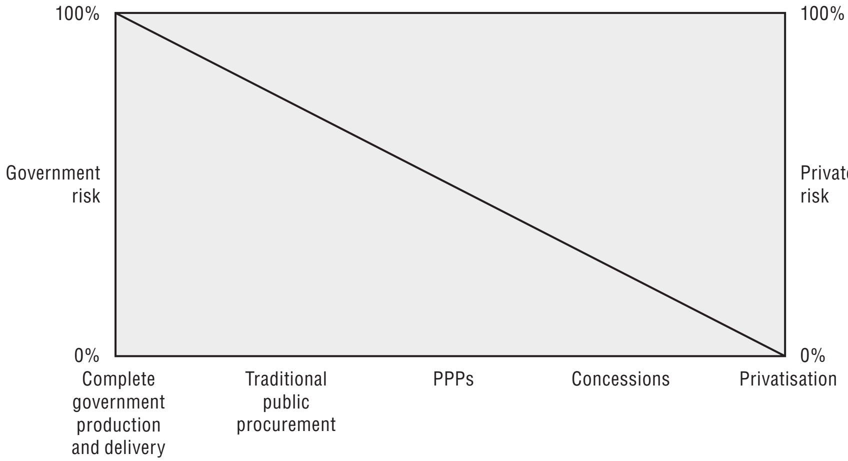
Commercial risk is associated with the responsibilities that may be transferred to the private partner in the design, construction, operation, financing and maintenance associated with public service delivery. It may encompass risks associated with the availability and cost of inputs, technical and production process, residual value of an asset and the cost of capital (supply-side risks). Commercial risks may also encompass changes in the use of the capital asset or service stemming from different consumer preferences, the emergence or disappearance of substitutes or complementary products or changes in income and demographics (demand-side risks).

Continuing the focus on the amount of risk transferred to the private partner serves to differentiate public-private partnerships from traditional public procurement, concession agreements and privatisation. Under traditional public procurement, governments specify the quality and quantity of the service required and negotiate the price with the private provider (often through a tender process). The government may also specify the design of the goods for the private sector to build accordingly. These goods and services usually constitute an input for the government's service provision though it may also transfer them directly to the public. In such cases, the government carries the risk involved in the service delivery. In the case of full private provision it is the private providers that set the quality and quantity of the goods delivered (though it may be regulated by the government) while they also specify the design and set the price (possibly after negotiating with their clients). In this case it is the private provider that carries any risks involved in service delivery.

Box 1.1. Different country definitions of public-private partnerships

- **Korea** defines a public-private partnership project as a project to build and operate infrastructure such as road, port, railway, school and environmental facilities – which have traditionally been constructed and run by government funding – with private capital, thus tapping the creativity and efficiency of the private sector.
- The **United Kingdom** defines a public-private partnership as "arrangements typified by joint working between the public and private sectors. In their broadest sense they can cover all types of collaboration across the private-public sector interface involving collaborative working together and risk sharing to deliver policies, services and infrastructure." (HM Treasury, 2008). The most common type of PPP in the United Kingdom is the Private Finance Initiative, which describes an arrangement where the public sector purchases services from the private sector under long-term contracts. A Private Finance Initiative is an arrangement whereby the public sector contracts to purchase services, usually derived from an investment in assets, from the private sector on a long-term basis, often between 15 and 30 years. This includes concessions and franchises, where a private sector partner takes on the responsibility for providing a public service, including maintaining, enhancing or constructing the necessary infrastructure.
- The **State of Victoria (Australia)** defines a public-private partnership as relating to the provision of infrastructure and any related ancillary service which involve private investment or financing, with a present value of payments for a service to be made by the government (and/or by consumers) of more than AUD 10 million during the period of a partnership that does not relate to the general procurement of services.
- **South Africa** defines a public-private partnership as a commercial transaction between a government institution and a private partner in which the private party either performs an institutional function on behalf of the institution for a specified or indefinite period, or acquires the use of state property for its own commercial purposes for a specified or indefinite period. The private party receives a benefit for performing the function or by utilising state property, either by way of compensation from a revenue fund, charges or fees collected by the private party from users or customers of a service provided to them, or a combination of such compensation and such charges or fees.

Figure 1.1. Public and private participation classified according to risk and mode of delivery



Source: OECD (2008), *Public-Private Partnerships: In Pursuit of Risk Sharing and Value for Money*, OECD Publishing, Paris.

The differentiation between public-private partnerships and concessions is less clearly defined. Under a concession agreement, instead of the government paying the private operator for services delivered, the private operator pays the government for the right to operate the asset. Furthermore, the transfer of risk to the private partner is generally considered to be higher than that of a public-private partnership because concessions usually depend on user charges paid by the direct beneficiaries of the service. Having made this distinction, it should also be mentioned that much of the literature does not draw a clear line between public-private partnerships and concessions when discussing the problems that give rise to contractual renegotiations or issues regarding affordability or value for money. The omission of a clear distinction is not necessarily a failure to distinguish clearly, but may result from the significant overlap in definition as well as from issues and problems that affect both modes of service delivery.

Within the category of public-private partnerships, a number of different models exist – and can also give rise to different definitions. These are influenced not only by the responsibilities of the private partner but also the ownership and conceptualisation of the asset. For example, the private partner may design, build, own, operate and manage an asset with no obligation to transfer ownership to the government (*e.g.* design-build-finance-operate). Alternatively, the private partner may buy/lease an existing asset from the government, modernise, and/or expand it before operating the asset but with no obligation to transfer ownership back to the government (*e.g.* buy-build-operate). Finally, the private partner may design, build and operate an asset before transferring it back to the government when the operating contract ends, or at some other pre-specified time (*e.g.* build-operate-transfer).[4]

It is important to note that all service delivery mechanisms – whether they are public, private or partnership models – are exposed to risks. The key difference with public-private partnerships is that a large part of their efficiency or value for money is derived from the effective identification, pricing and transfer of risk from the public sector to the private sector. Failure by the government to mitigate these risks may result not only in fiscal consequences for the government, but also impact on service delivery, thereby having consequences too.

Rationale for public-private partnerships

Two main arguments have been outlined for the use of public-private partnerships: efficiency (or value for money) and fiscal constraints (Posner *et al.*, 2009). The principle argument centres on efficiency. The private sector is considered to have greater incentive and ability to deliver (design, construct, operate and maintain) cost effective capital assets than public provision alone. Moreover, tying service delivery with payment mechanisms may encourage faster construction and better continued maintenance over the contract life of the assets. The efficiency argument is, however, premised on a number of assumptions: competitive markets, effective identification, pricing and transfer of project risks, and the ability to write comprehensive contracts. While none of these assumptions holds perfectly, their violation does not necessarily render public-private partnerships more expensive than traditional public procurement. Responsibility is, however, placed upon the government to ensure that risks are correctly identified and priced, contracts are written as comprehensively as possible and that, as for all public contracts, adequate monitoring and enforcement is provided.

The fiscal constraint argument for public-private partnerships is driven by pressures for governments to reduce public spending to meet political, legislated and/or treaty-mandated fiscal targets.[5] In parallel with this, many governments face an infrastructure deficit stemming from a variety of factors including, as some see it, a perceived bias against budgeting for capital expenditures in cash-based budgetary systems. However, in its response to fiscal constraints, government should not bypass value for money and affordability. The latter may occur all too readily if public-private partnerships are not properly accounted for, thereby enabling governments to circumvent short- and medium-term fiscal policy objectives. They may also create future fiscal consequences if they violate the budgetary principle of unity, *i.e.* that all revenues and expenditures should be included in the budget at the same time (and in the same document) (OECD, forthcoming). Potential projects should be compared against other competing projects and not considered upon their own to avoid giving precedent to consideration and approval of lower value projects. Nor should public-private partnerships give rise to higher levels of capital expenditures than can otherwise be afforded.

Ensuring the success of public-private partnerships

Successful public-private partnerships deliver high quality services to consumers and the government at costs that are significantly lower than those available through public procurement. Public-private partnerships are not automatically efficient and innovative policy tools by definition. The OECD (2007) has established principles covering five important sets of challenges for national authorities in private sector participation in infrastructure (see Annex A). Ensuring that projects represent value for money, as discussed above, is a first step. The decision to involve the private sector has to be guided by an assessment of the relative long-term costs and benefits as well as availability of finance, taking into account the pricing of risks transferred to the private operators and prudent fiscal treatment of risks remaining in the public domain.

The government also needs to ensure an enabling policy framework for investment and adequate capacity at all levels of government to implement agreed projects – the second and third challenges. The policy framework refers not just to the legislation and regulation of public-private partnerships themselves, but also includes other elements supportive of good public governance such as integrity and *ex post* controls, audit and reporting. Capacity within government can be a major challenge for government. Public-private partnerships have different preparation, tender and post-award management requirements. This is in part driven by the bundling of different elements and complexity of the contractual agreements. However, it also reflects the extended duration of the contract and the associated costs involved if the contract fails.

Box 1.2. Assessing value for money in proposed public-private partnership projects

Prior to undertaking a public-private partnership, a government should explore whether or not a PPP will deliver better value for money compared to traditional public procurement. Generally speaking, four methods may be used to assess the relative value for money of the different delivery models:

- a complete cost-benefit analysis of all alternative provision methods available to both the government and the private sector – this method is the most complex among the four presented here;
- calculation of a public sector comparator before the bidding process to assess whether or not public-private partnerships in general offer better value for money (*e.g.* South Africa);
- calculation of a public sector comparator after the bidding process to assess whether or not a particular public-private partnership bid offers better value for money; and
- the use of a competitive bidding process alone without a comparison between public and private provision methods (*e.g.* France).

Partnerships Victoria uses a public sector comparator to compare the net present cost of bids for the public-private partnership project against the most efficient form of delivery according to the output specification (a so-called reference project). The comparator takes into account the risks that are transferable to a probable private party, and those risks that will be retained by the government. Thus, the public sector comparator serves as a hypothetical risk-adjusted cost of public delivery of the output specification of a Partnerships Victoria project. The methodology for preparing the public sector comparator is published by Partnerships Victoria.

Some have contested the robustness of the public sector comparator citing that it is constantly manipulated in favour of public-private partnerships. The United Kingdom, for example, has replaced the public sector comparator to incorporate quantitative and qualitative factors in a value-for-money assessment. Quantitative factors include a reference project, and value-for-money and affordability benchmarks. Qualitative factors include project visibility, desirability and achievability (Wall and Connolly, 2009).

Finally, governments must establish a durable working relationship with, and set expectations regarding responsible business conduct of private partners: the fourth and fifth challenges. The success of a project depends on the ability of the government to be able to maintain a viable long-term relationship with the private partner over the life of the contract. Cultural differences also exist between the public and the private sectors that must be managed. Governments have multiple objectives and face different political pressures over the course of a project. The private partner on the other hand is able to take both a longer and narrower view. And, insofar as they are not rooted in formal legal requirements, governments' expectations regarding responsible business conduct need to be clearly communicated by governments to their private partners.

The increasing importance of public-private partnerships

Since the 1990s an increasing number of countries use public-private partnerships. The United Kingdom by far outstrips the rest of the world in the number of PPP projects, though Australia, Germany, Korea and South Africa, as well as France, Portugal and Spain increasingly use PPPs. As noted above, there is a divergence in definitions regarding what constitutes a PPP. This also leads to different figures regarding the number of PPPs in the world. As such, not all the figures presented are comparable, but they do give an indication of the wide extent to which countries use PPPs. According to data provided for this study by Deloitte (Ireland), infrastructure projects constitute the largest sector by number of deals internationally, followed by healthcare and education. These data also indicate that the United Kingdom is by far the leading country implementing projects, followed by the rest of Europe. Furthermore, PPP activity reached a peak during the period 2003-07, before slowing down due to the onset of the international financial crisis and recession.

Table 1.1 comprises data collected by Public Works Financing's "International Major Projects Survey" (PWF, 2009, p. 2). It includes projects that represent various combinations of public and private sector risk taking (for details regarding different combinations, see endnote 4) and represents cumulative data since 1985. According to Public Works Financing (PWF), road PPPs represent almost half of all PPPs in value (USD 307 billion out of USD 645 billion) and a third in number (567 out of 1 747). Second is rail and third is water. The PWF database also confirms that Europe represents about half of all PPPs in value (USD 303 billion) and a third in number (642).

Table 1.1. Global public-private partnership deals by sector and region since 1985

		Roads		Rail		Water		Buildings		Total	
		Number of projects	Cost USDm	Number of projects	Cost USDm	Number of projects	Cost USDm	Number of projects	Cost USDm	Number of projects	Cost USDm
United States	Total planned and funded since 1985	77	61 844	41	58 334	187	20 001	164	10 986	469	151 926
	Funded by 10/09	35	16 913	27	10 950	136	15 024	158	9 421	356	52 308
Canada	Total planned and funded since 1985	31	18 103	7	9 780	29	3 029	91	12 529	158	43 531
	Funded by 10/09	20	11 058	1	2 000	14	457	49	9 572	84	23 114
Latin America	Total planned and funded since 1985	272	101 236	69	51 184	153	17 163	19	1 729	513	171 222
	Funded by 10/09	140	61 652	26	10 355	79	9 865	8	521	253	82 393
Europe	Total planned and funded since 1985	339	320 375	102	157 293	218	34 178	306	90 369	965	602 215
	Funded by 10/09	193	156 692	55	54 579	171	24 657	223	66 975	642	302 903
Africa and Middle East	Total planned and funded since 1985	21	10 886	16	12 479	101	28 166	10	1 186	148	52 717
	Funded by 10/09	13	5 691	4	4 668	45	17 835	4	957	66	29 151
Asia and Far East	Total planned and funded since 1985	295	92 662	93	101 826	180	50 745	37	11 358	605	256 591
	Funded by 10/09	166	54 640	40	55 676	119	37 452	21	7 201	346	154 969
World	Total planned and funded since 1985	1 023	605 106	328	390 896	868	153 282	627	128 157	2 858	1 278 202
	Funded by 10/09	567	306 673	153	138 228	564	105 290	463	94 647	1 747	644 838

Notes:

Latin America includes Mexico, Latin America and the Caribbean.

Cost USDm (million) refers to nominal dollars, converted to USD at time of financial close.

This database comprises data collected by the PWF International Major Projects Survey. It includes all projects that are being planned, built or operated in 131 countries. According to PWF (2009, p. 3): “PWF’s survey aims to describe projects where governments are seeking to franchise the delivery of public works infrastructure services to private, for-profit companies outside of a regulated, public utility structure. That delegation of control can take the form of long-term service contracts, concession arrangements involving finance, construction and long-term operations of facilities under term-limited contracts; private development and ownership of facilities; and divestiture of infrastructure assets.”

Source: Public Works Financing (2009), *Public Works Financing Newsletter*, Vol. 242, October, *www.PWFinance.net*.

Dedicated PPP units: rationale and functions

A substantial number of OECD member countries have set up, or are in the process of establishing, a dedicated PPP unit. This report defines a dedicated PPP unit as any organisation set up with full or partial aid of the government to ensure that necessary capacity to create, support and evaluate multiple public-private partnership agreements is made available and clustered together within government. The reference to "multiple" public-private partnerships is an important distinction to differentiate a dedicated PPP unit for government from a dedicated PPP project unit that may be located in government organisations to support the management of an individual project. The functions, location and jurisdiction of dedicated PPP units vary across countries. They may provide policy guidance, technical support, capacity building, promotion and/or direct funding for public-private partnership projects. In some cases they are also required to green light a project before it can go forward. They may be located within an independent agency, a centralised unit within the finance ministry, or devolved within dedicated units in one or more line ministries.

Rationale for a dedicated unit

Arguments exist both for and against the establishment of a dedicated PPP unit (see Table 1.2). These centre on the separation of policy formulation and project implementation, pooling expertise and experience within government, standardisation of procurement procedures, appropriate budgetary consideration of projects, and demonstrating political commitment and trust. However, the move to establish such a unit depends on a combination of factors including: the types of pre-existing institutions in place; the sectoral composition of public-private partnerships under consideration; operation, construction and the various stages of preparation; and the political commitment of the government.

The cases of Korea, Portugal and South Africa highlight some of the different rationales for establishing a dedicated unit. Korea established the Private Infrastructure Investment Centre of Korea (PICKO) in 1999 under the Act on Private Participation in Infrastructure. (In 2005, PICKO was merged with the Public Investment Management Centre to create the Public and Private Infrastructure Investment Management Centre or PIMAC.) The establishment of the Centre was seen as part of the government's response to three major concerns. A concern existed over a perceived lack of expertise within government to develop and evaluate public-private partnerships. Concerns were also raised over a lack of transparency, excessively complicated procedures, unattractive risk-sharing arrangements and insufficient incentives – all of which detracted from the interest of private partners. The government also expressed concern about the impact of the 1997 east Asian financial crisis on public investment.

Table 1.2. Advantages and disadvantages of a dedicated PPP unit

Arguments for a dedicated PPP unit	Arguments against a dedicated PPP unit
• A dedicated PPP unit can separate PPP policy formulation and implementation.	• PPP policy can be formulated by the same authority that does so for traditional procurement. • A dedicated unit may not separate policy formulation and implementation if it can directly fund PPP projects.
• A dedicated PPP unit can act as a knowledge centre on PPP project preparation, negotiation and execution. • Centralisation of knowledge can provide cost savings for government.	• Knowledge can be supplied by internal and external project advisors appointed directly by individual ministries/agencies with specific expertise in the relevant sectoral area and/or project issues.
• A dedicated PPP unit can help regulate the creation of PPPs by government organisations to ensure that they fulfil all requirements regarding affordability, value for money and risk transfer.	• Line ministries/agencies together with the finance/planning ministry have expertise in assessing cost-benefits of projects and political prioritisation of projects.
• A dedicated PPP unit can ensure that appropriate budgetary considerations are taken for PPP projects and that contingent liabilities are also evaluated.	• The closer a dedicated unit is to the relevant political leadership, the more susceptible it is to the political influence in deciding which PPP project should be initiated.
• A dedicated PPP unit can give a fillip to a country's PPP programme, soliciting projects, attracting potential partners/ investors, building trust and good will with private partners.	• Establishing a dedicated unit may imply an implicit approval of PPP as a policy tool and weaken the case for other viable procurement methods.

Source: Adapted from OECD (2008), *Public-Private Partnerships: In Pursuit of Risk Sharing and Value for Money*, OECD Publishing, Paris.

Box 1.3. Alternative definitions of dedicated PPP units

The World Bank and the Public-Private Infrastructure Advisory Facility (2007) define a dedicated PPP unit as including any organisation designed to promote and/or improve public-private partnerships that has a lasting mandate to manage multiple public-private partnerships transactions in response to government failures (poor procurement incentives, lack of co-ordination, lack of skills, high transaction costs, lack of information, etc.). It may control the total number of public-private partnership projects and ensure that proposed projects fulfil specific quality criteria (*e.g.* affordability, value for money and appropriate risk transfer). They define a dedicated unit's possible functions as including policy and strategy, project identification, project analysis, transaction management, contract management, monitoring and enforcement.

The Asian Development Bank (2008) defines a dedicated PPP unit as a point of co-ordination, quality control, accountability and information on public-private partnerships for one or more sectors. These units are created as a new agency or within a ministry such as the finance ministry, which is seen to be at arm's length from the sector utilising public-private partnerships as a service delivery mechanism. In its definition, the Asian Development Bank outlines the respective benefits of a dedicated unit for public and private partners in a project. For public partners, dedicated units are able to disseminate information and provide specialised management advice to the procurement process. For the private partner, dedicated units provide transparency and consistency.

Farrugia *et al.* (2008) define a dedicated "agency" as a public organisation, either within or connected to government, that provides services related exclusively to public-private partnerships to other governmental bodies. Within this category they differentiate between three sub-categories. A "review body" is primarily responsible for reviewing PPP project business plans and providing recommendations to decision-making bodies. "Full-service agencies" fulfil the responsibilities of a review body as well as providing consulting services to government agencies, develop the public-private partnerships market in their jurisdiction and sometimes provide capital/direct investments. "Centres of excellence" do not review project business plans in a regulatory capacity or provide consulting services to agencies but compile and disseminate research, information and good practice.

Fischer *et al.* (2006) focus attention on PPP task forces as special institutions to find suitable public-private partnership solutions by advocating legislative changes, supporting policy issues and advising on individual projects. They may also promote transparency and accountability, and good governance more generally.

South Africa's National Treasury PPP Unit was established in 2000 to filter fiscally irresponsible projects while maintaining investor confidence in the government's public-private partnership programme. The creation of the PPP Unit followed the Treasury's concerns over a specific project, a 30-year build-operate-transfer contract for two prisons proposed by the Ministry of Public Works. In considering intervening and establishing a precedent of arbitrary intervention in public-private partnerships by the National Treasury, the government decided to create a dedicated unit.

In Portugal, Parpública SA was delegated responsibility for public-private partnerships in 2003. The move to establish a dedicated unit was in response to: the failure of early public-private partnerships to ensure long-term affordability; delays and cost over-runs in their construction; rigidities in the procurement process; and lack of public sector capacity to manage and oversee the projects. It should be noted that Parpública SA existed as a 100% Treasury-owned company prior to assuming responsibilities for public-private partnerships.

Location and function of dedicated units

After a decision has been made to establish a dedicated PPP unit, it is necessary to consider its location and the scope of its functions. Three general models of dedicated PPP units may be established by governments: an independent unit; a single centralised unit located within a finance ministry (or equivalent); or as one or more centralised units arranged by sector. The independent model may be either a government agency or a commercial venture owned in full or in part by the government. Where this is the case, a secretariat typically exists in a central ministry to regulate the work of the dedicated unit and give authorisation for projects. Line ministries and other government agencies are in some cases obliged to use the services of the independent unit, but can also hire consultants from the private sector to help in project preparation, the tender process and contract management.

Setting up an independent unit enables closer involvement of the private sector but raises a number of other governance concerns. For example, potential conflict of interests may arise between private sector interests in maximising profit from public-private partnerships and the government's interest in ensuring value for money. There is also a danger of a dedicated PPP unit promoting the use of public-private partnerships in order to keep itself in business and justify its existence. Such risks may be prevented by measures such as issuing codes of conduct, putting due process structures and complaint procedures in place, maximising transparency, and promoting a professional culture. In addition, the incentives of the unit (*i.e.* reaching the benchmarks for which it is remunerated) need to be aligned to address such problems as well as be aligned with the objectives of government. That is, defined in terms of a PPP that yields value for money.

The positioning of a dedicated unit within the Ministry of Finance provides a direct link to other expenditure and capital investment expertise and decision-making processes. Potential drawbacks of locating it in the Ministry of Finance could be that political preferences rather than the concrete costs and benefits of the project could play a role when evaluating PPP agreements. In addition, care should be taken to staff the unit with the right skills, which may not correspond to the traditional career bureaucrat's skill profile.

The functions of a dedicated unit may include:

- Policy guidance including advising on the content of national legislation; defining eligible sectors and public-private partnership methods/schemes; project procurement and implementation processes; as well as procedures for conflict resolution/termination.
- Green lighting projects, *i.e.* deciding on whether or not a project should move forward. This function refers to the so-called "gate-keeping" role that some PPP units play at various stages, ranging from the inception stage to final approval of the contract to be signed by the different partners.
- Technical support to government organisations during the various stages of project identification, evaluation, procurement, contract management.
- Capacity building including training to public sector officials interested or engaged in PPPs.
- PPP promotion among the public and/or private sector, and possibly in international forums.

Naturally, the functions of a dedicated PPP unit may also change over time. At conception they focus particularly on policy guidance to create the necessary legal and regulatory structures, as well as on stimulating market interest and pilot projects to test and demonstrate the value of public-private partnerships. As a country's public-private partnership programme grows, they focus more on ensuring value for money and developing more sophisticated project evaluation methodologies and maintaining political support (Hemming, 2006).

Table 1.3 presents an overview of the location and functions of the dedicated units surveyed. In 12 of the 18 cases, the unit is located in the finance ministry (or equivalent). Examples include the United Kingdom PPP Policy Team, the Flemish Government Executive in Belgium and the PFI Promotion Office within Japan's Cabinet Office.[6] Six are located in an independent agency, including the Czech Republic's PPP Centre, Partnerships Germany, Korea's Public and Private Infrastructure Investment Management Centre and Portugal's Parpública SA. Finally, three are located within a line ministry – typically one that has a role in public infrastructure provision, *e.g.* the Danish Enterprise and Construction Authority (under the Ministry of Business and Economic Affairs), and the Ministry of Infrastructure in Poland.

Technical support and policy guidance are the main functions of dedicated PPP units in all the countries included in the study (with the exception of Italy where the unit is not responsible for policy formulation). The unit is responsible for the promotion of public-private partnerships in over half (11) and capacity building in just under half (8) of the units. In the United Kingdom, the PPP Policy Team is responsible for all these tasks, supported by Partnerships UK, itself a PPP owned by the private sector and government, providing advice and project delivery support to public sector entities who want to set up PPPs.

Box 1.4. Sub-national dedicated PPP units in federal states[1]

The jurisdiction of dedicated PPP units may span the national level, the sub-national level or both – the latter requiring further co-ordination where their functions are parallel or sequential to one another. Typically the jurisdiction of such units reflects the structure and delineation of powers between levels of government. In unitary states that have a dedicated PPP unit, it is located at the level of the central government.

Among the four federal states with a dedicated PPP unit (*i.e.* Australia, Belgium, Canada and Germany) the location of such a unit varies. In Australia, Canada and Germany, a dedicated PPP unit is located at both the state/province and federal levels. In each case, however, it was the state/provinces that first established dedicated PPP units (though not all states/provinces have done so) with the federal government establishing a unit during the last year. In Belgium, a dedicated unit has only been established in one of the county's three regions (*i.e.* Flanders but not Brussels or Wallonia).

Box 1.4. Sub-national dedicated PPP units in federal states[1] *(cont'd)*

In Australia, each state and territory has appointed a lead government agency to implement public-private partnership policies. Only three state/territory governments (New South Wales, South Australia and Victoria) have established a dedicated unit. Other states and territory governments (*i.e.* Tasmania, Western Australia, Australian Capital Territory, Northern Territory) do not have a dedicated PPP unit and place responsibility within their finance ministry more generally. In Queensland, both the Queensland Treasury and the Queensland Department of Infrastructure and Planning are involved in the creation of PPPs.

At a national level, Infrastructure Australia was established in 2008 as an independent agency to set national public-private partnership policy and guidelines. The agency is located under the portfolio of the federal Minister for Infrastructure, Transportation, Regional Development and Local Government. Infrastructure Australia replaced an inter-governmental National PPP Forum established in 2004 to support a more unified national approach to public-private partnerships.

In Canada, three provinces have established a dedicated unit: Partnerships British Columbia, Infrastructure Ontario, and Public-Private Partnerships Québec (state/provincial level). At the federal level, Infrastructure Canada was set up as a separate department under the Transport, Infrastructure and Communities portfolio in August 2002.

In Germany, a number of federal states have also established their own dedicated PPP units since 2001 to support government organisations to procure and manage public-private partnerships projects. Federal states may also draw upon the services of Partnerships Germany, the independent PPP unit. Connecting the units at the federal state level, a federal expertise network (*Föderales PPP Netzwerk*) exists between the federal government, federal states and municipalities and help to facilitate reciprocal vertical and horizontal knowledge transfers.

1. Federal states have a constitutionally delineated division of power between one central government and several regional or state governments. While unitary states often include multiple levels of government (such as local and provincial or regional), these administrative divisions are not constitutionally defined. Among OECD member countries, federal states include Australia, Austria, Belgium, Canada, Germany, Mexico, Switzerland and the United States. In addition, Italy and Spain are highly regionalised countries.

Table 1.3. Location and functions of dedicated PPP units[1]

	Country	Location	Year created	Policy guidance	Technical support	Capacity building	Promotion
Case studies	Germany[2]	Independent	2009	●	●	○	○
	Korea	Independent	1999	●	●	●	●
	United Kingdom	Finance ministry	1997	●	●	●	●
	Victoria (Australia)	Finance ministry	2000	●	●	●	●
	South Africa	Finance ministry	2000	●	●	●	○
Other member countries	Czech Republic	Independent	2004	●	●	●	●
	Denmark	Line ministry	2006	●	●	○	●
	Flanders (Belgium)	Finance ministry[3]	2002	●	●	●	●
	France	Finance ministry	2005	●	●	○	●
	Greece	Finance ministry	2006	●	●	○	●
	Hungary	Finance ministry	2003	●	●	○	○
	Ireland	Finance ministry	2003	●	●	●	●
	Italy	Finance ministry	1999	○	●	●	●
	Japan	Finance ministry[4]	2000	●	●	○	○
	Netherlands	Finance ministry	1999	●	●	○	○
	New South Wales (Australia)	Finance ministry	2000	●	●	○	●
	Poland	Line ministry	2001	●	●	○	○
	Portugal	Independent	2003	●	●	○	○
	Total			17	18	8	11

● = yes, ○ = no, n/a = not applicable

1. No dedicated PPP units in Austria, Finland, Iceland, Luxembourg, Mexico, New Zealand, Norway, Slovak Republic, Spain, Sweden, Switzerland, United States (see Table 0.1).

2. Germany refers only to the federal level.

3. Belgium: Flemish Government Executive Staff.

4. Japan: PFI Promotion Office, within the Cabinet Office.

Main findings

As mentioned in the executive summary, this report has three main objectives. First is to establish the rationales, general functions, location and manner of finance of dedicated PPP units in OECD member countries. Second, we consider the role of the dedicated PPP unit in the procurement cycle while, third, setting out a list of lessons for countries that have established or consider establishing a PPP unit. This section sets out the findings with respect to these three objectives.

Rationale, general functions, location and manner of finance of dedicated PPP units

The above discussion highlighted that there is no uniformity among countries in terms of the rationale, functions, location and manner of finance of PPP units.

- **Rationale for PPP units.** The pre-existing institutional setup in a country usually plays a significant role in determining why a country would decide to establish a PPP unit. Although there are arguments against the establishment of units, such as the need to separate policy formulation and technical support during project implementation, most OECD member countries (and several others) have established such units. Very often the existence of a PPP unit demonstrates the commitment of government to PPPs. It also demonstrates to potential private partners that government has the requisite skills to manage PPPs. In this respect Ahadzi and Bowles (2004, p. 976) argue that:

  …it is not surprising that the private sector is more concerned to see an established PPP unit within the client organisation. A PPP unit suggests an experienced and able client team that has the power and authority necessary for an effective negotiation process. The absence of such a team may raise concerns about the public sector's project management strengths. This will be particularly pertinent where the functions of the public sector client are fragmented across a number of departments.

- **The functions of dedicated PPP units (policy formulation, technical support, PPP promotion, and capacity building).** In terms of functions, most, if not all dedicated PPP units are involved in technical support and policy guidance. Indeed, these two aspects seem to be the defining characteristic of PPP units across countries.

These two functions also follow closely from the rationale for the establishment of PPP units in several countries and can be explained by the rather technical nature of PPPs. Capacity building and PPP promotion also feature in approximately half of the countries discussed in this report. As the discussion in Chapter 2 indicates, capacity building features especially high in four of the case studies (Korea, the United Kingdom, Victoria [Australia] and South Africa). In the United Kingdom, the PPP Policy Team as well as Partnerships UK are responsible for technical support to government entities wishing to enter PPP agreements, PPP promotion and capacity building. There are differences between units regarding their relationship with public entities implementing public-private partnerships and the finance ministry. The units mostly act as consultants for implementing entities, but may also have a mandatory review dimension.

- **The functions of dedicated PPP units (green lighting of projects).** Most PPP units do not green light projects. However, of the five case studies, three (the United Kingdom, Victoria [Australia] and South Africa) fulfil such a gate-keeping role. In the cases of Germany and Korea, the Ministry of Finance fulfils this role. The difference between these countries coincides with the location of the units; in the United Kingdom, Victoria and South Africa, the PPP units reside within the Ministry of Finance, while in the case of Germany and Korea they are independent agencies. Where units are PPPs themselves (and thus not strictly speaking public bodies), the question also exists as to whether or not it can be endowed with the necessary authority to green light projects.

- **The location of PPP units.** Generally speaking there are three models of dedicated PPP units. The first model is to locate a dedicated unit within the regular departmental structure of the Ministry of Finance (*e.g.* the United Kingdom, Victoria [Australia] and South Africa). The second model is to locate a dedicated unit as an independent government agency that collaborates with a secretariat in the finance ministry (or equivalent). A variation on this second model would be for the dedicated unit to be a public-private partnership itself (*e.g.* Korea). A third model is to locate a dedicated unit in an individual line ministry that is predisposed in its functions to use public-private partnerships, such as an infrastructure ministry.

- **The funding of PPP units.** Dedicated PPP units may be funded from either the government budget, through user charges or a combination of both. Government budget financing refers to funds appropriated through the annual government budget. The precise details will, however, vary depending on the budget's appropriation structures and rules. User charges are levied on a government organisation to capture the cost, either in part or in full, of services provided to other government organisations in implementing their activities and delivering public services. Funding is of course also influenced by the location of the dedicated unit as well as practices with regard to charging for services more generally within the government.

The role of dedicated PPP units in the procurement cycle

Chapter 2 discusses the role of the dedicated PPP units in the procurement cycle of the five case studies (see in particular Table 2.2). The table shows some significant differences between the units, though there are also some similarities. It distinguishes between the pre-tender, tender and post-award phases of the procurement cycle.

The **pre-tender phase** includes project initiation, an assessment of feasibility and value for money, budgeting and project approval. During this phase, the greatest similarity among the five case studies concerns the role that all five units play to assess feasibility and value for money. Four of the five (Korea, the United Kingdom, Victoria [Australia] and South Africa) have a direct role, while the German PPP unit has an indirect role. As the discussion above indicated, one of the main rationales for using PPPs is the presumed higher value for money that private participation may bring compared to traditional procurement. Thus, it follows that the most common feature of these PPP units is the assessment of value for money.

As mentioned above, the PPP units (as well as the Ministry of Finance) in the United Kingdom, Victoria (Australia) and South Africa green light projects (*i.e.* conduct project approvals), while in the other cases (Germany and Korea) this function is left solely to the Ministry of Finance (and even Parliament in the Korean case). However, in the case of Germany and Korea, the PPP unit plays an indirect role. In addition, with the exception of Korea, all the units play either a direct or indirect role with respect to the budgeting for PPP projects.

The **tender phase** includes the invitation to tender, the bid evaluation, negotiations and the bid approval. During the tender phase the dedicated PPP units in Germany, Korea and South Africa play a mostly indirect role, with the procuring government agency playing the direct role. However, the South African PPP unit is responsible for the bid approval. The Ministry of Finance plays neither a direct or an indirect role in any of the five case studies (with the exception of Korea where the Ministry of Finance plays a direct role with regard to the invitation to tender).

With regard to the **post-award phase** (which includes contract management and payment oversight) most dedicated PPP units only play an indirect role. In Korea the unit plays neither a direct, nor an indirect role. In all five cases the procuring agency plays the direct role. This follows from the nature of the PPP unit as a body that mainly supports procuring organisations. It also follows from the point of departure that, to enhance efficiency and value for money, both the public and private partners need to manage their risk to ensure the maximum value for money. The public partner in this case is the procuring organisation.

Lessons to be learned

The third objective of this report is to distil some lessons from the analysis for countries that have established or are planning to establish PPP units. These lessons concern green lighting of projects, the scope of projects evaluated by the PPP unit, the financing of dedicated PPP units, the staffing of units, and the assessment of units.

- **Green lighting.** The discussion above noted the distinction between the powers of the PPP units in the United Kingdom, Victoria (Australia) and South Africa on the one hand, and those of Germany and Korea on the other. It highlighted that this distinction can be related to the location of the unit. Though not explored in this report, a question remains as to whether or not a unit should be involved in policy formulation, technical support during project implementation and the green lighting of projects, or whether it should limit its role only to the former two. Given the possibility of a conflict of interest between the provision of technical support and the green lighting of projects, when a PPP unit is responsible for both technical support and green lighting projects, there should be a Chinese wall separating these functions within the unit.
- **The scope of projects covered.** One of the major differences between Korea and the dedicated PPP units in the other four case studies is that the Korean unit is strictly speaking not just a PPP unit. It considers all government investment projects, including PPP projects. In the other four case studies, the dedicated PPP units focus only on PPPs. The one significant advantage of unifying the assessment and approval of all government investment projects within one agency is that doing so makes it more likely that the value-for-money and investment criteria applied to PPP and

traditionally procured projects are aligned. It might also eliminate a perception that a PPP unit is biased towards the creation of PPPs.

- **Funding of dedicated PPP units.** As mentioned above, dedicated PPP units may be funded from either the government budget, through user charges or a combination of both. Very often the nature of the funding depends on the location of the unit. Whatever the funding model used, in deciding the funding model for a dedicated unit, government should keep in mind that the source of funding might create an incentive structure that influences the behaviour of the PPP unit. For instance, user charges levied on those government entities seeking help, might, if not structured correctly, create an incentive that is biased towards the creation of PPPs. On the other hand, a unit that is solely dependent on the Ministry of Finance for its budget might become biased towards or against PPPs, depending on the political views dominating the Ministry of Finance. Thus, to prevent bias might require clear criteria for funding the PPP unit that ensures that the PPP unit is funded for pursuing value for money. This means that a PPP unit must know that it will also get the necessary funding to fulfil its functions even if it finds that, compared to traditional procurement, most of the projects it considers do not represent an improvement in value for money.

- **The staffing of dedicated PPP unit.** In order to successfully fulfil its functions, a dedicated unit requires expert staff. These include sector specific technical skills as well as experts in economics and finance, regulation, procurement, communications and training. To attract people with the right skills, including people from the private sector, dedicated units have to be able to offer attractive packages to both permanent staff and short-term consultants. In some cases, rigid public sector salary systems may render this difficult. While the public sector might never be a market leader in terms of remuneration, a number of other attributes (*e.g.* interesting and large projects, job security, work-life balance) can make the public sector attractive to highly skilled staff.

- **How should a dedicated PPP unit be assessed?** Expectations and goals for a dedicated unit need to be measurable, realistic and phased in over a period of time. Measuring the success of a dedicated unit based upon the success of a country's public-private partnership programme alone is a problematic measure. In many cases, a dedicated unit is only one actor involved in the project procurement cycle. A dedicated unit's success should be measured by whether or not it carries out its functions successfully: the quality of its advice; the quality of its risk analysis, its ability to provide innovation in projects and its overall enhancement of value for money.

While the impact and quality of these activities can be difficult to measure, both quantitative and qualitative measures should be part of an evaluation of any such unit. The success of the unit should never be measured on the basis of the number of PPPs alone. Indeed, it might even be argued that the success of the unit should not only be judged in terms of the number of PPP projects created that improve value for money, but it should also be judged in terms of the number of PPP projects that it prevented from being created because doing so would not have improved value for money.

Finally, it should be clear that the task of a dedicated unit is not to provide automatic legitimacy for the use of public-private partnerships. Whether or not a PPP is created should, in the first and last instance depend on the nature of the project and more specifically whether or not creating a PPP will improve value for money compared to traditional public procurement.

Notes

1. This publication uses the term private partner in the singular. Public-private partnerships are, however, often organised by way of a special purpose vehicle (or joint-venture special purpose company). A special purpose vehicle is typically a consortium of companies responsible for all the activities of public-private partnerships. In practice, a consortium includes banks and financial institutions that have experience in the structuring of the capital and financial aspects of PPPs.

2. The Statistical Office of the European Communities (Eurostat, 2004) considers that the main issue in classifying a public-private partnership depends on who bears the most risk. Eurostat recommends that assets involved in a public-private partnership should be classified outside the government sector if both of the following conditions are met: *i)* the private partner bears the construction risk; and *ii)* the private partner bears either the availability risk or the demand risk. The bearer of risk is not always easy to define, and contract design varies. In cases where it is not possible to classify a public-private partnership as on or off the government books, other contract features can be considered, such as if the asset is supposed to be transferred from the private partner to the government at the end of the contract period and at what price. This event is also an important part of the risk sharing.

3. It should also be noted that the government and its private partner may value risk quite differently from one another and subsequently use different market risk pricing methodologies. The government usually uses the social time preference rate and other risk-free discount rates for project appraisals. Private partners tend to include higher discount rates to reflect the higher risk premium to which they are subject.

4. A large soup of acronyms has emerged for public-private partnerships. This report refers to public-private partnerships in general and does not go into specific types – which indeed, vary significantly between countries. There exist a number of variations on design-build-finance-operate (DBFO), buy-build-operate (BBO) and build-operate-transfer (BOT) schemes. Variations of design-build-finance-operate include build-own-operate (BOO), build-develop-operate (BDO), and design-construct-

manage-finance (DCMF) schemes. Variations of buy-build-operate include lease-develop-operate (LDO) and wrap-around addition. Finally, variations of build-operate-transfer include build-own-operate-transfer (BOOT), build-rent-own-transfer (BROT), build-lease-operate-transfer (BLOT) and build-transfer-operate (BTO) schemes. See Hemming (2006).

5. Legislated fiscal targets are contained in primary law (*e.g.* the Constitution and legislation). Political targets may constitute a political commitment by the government or a coalition agreement between political parties that form the majority of the legislature. Treaty mandated fiscal targets are contained in supra-national agreements (*e.g.* the European Union Stability and Growth Pact).

6. The responsibilities of Japan's Cabinet Office include economic and fiscal policy.

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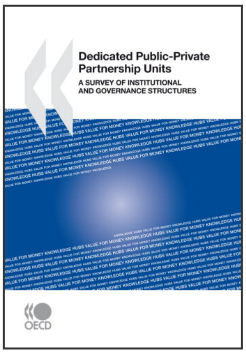

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