Public-Private Partnership Agencies: A Global Perspective

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[1] Unless otherwise indicated, all values are in US dollars.

Abstract

Public-Private Partnership (PPP) Agencies are a recent phenomenon; as a result, little is known about their origins, functions and global evolution. As developed countries increasingly utilize PPP approaches for procurement of infrastructure assets, they are creating agencies to provide centralized knowledge and a process for approving and implementing large-scale programs of PPP projects.

The central purpose of this paper is to compare similarities and differences across PPP agencies based on interviews with executives and staff, as well as reviews of public documents. The paper contains short descriptive profiles of eight agencies and a cross-agency analysis of key agency attributes. It also provides fresh insight into how the global spread of the PPP agency model has lead to the creation of what is now quite a large family of more than 45 agencies worldwide.

Overall, the agencies interviewed can be broken down into two main categories: review bodies and full service agencies. *Review bodies* include those agencies primarily responsible for reviewing project business plans and providing recommendations to decision-making authorities. These agencies tend to be housed inside and funded by the host government. *Full service agencies* are those that, in addition to the responsibilities of review bodies, also provide consulting to service agencies, develop the PPP market in their jurisdiction and sometimes offer capital or advisory services. These agencies are typically arms-length corporations that receive fees-for-service on top of their government budget allocation. The type of agency implemented depends on the political environment and the structure and objectives of the host government.

The final section of this report provides a set of guiding questions for public officials to consider when contemplating the formation of a new PPP agency. The paper is not intended to evaluate or critique the various agency models, but to provide an initial overview of the kinds of agencies that exist and to identify the key questions that must be answered when considering the creation of a PPP agency.

Introduction

More than 25 state and national governments have established Public-Private Partnership (PPP) agencies during the past decade (see Appendix 1). These agencies provide a consistent approach to involving the private sector in the evaluation, financing, procurement, maintenance, operation and disposition of infrastructure assets, including roadways, ports, airports, power plants, water systems, public buildings, schools and hospitals. Many developed countries, including Canada, the United Kingdom, Australia, Spain, France, Portugal, Italy, Greece and Ireland, have now instituted these agencies. Strikingly, not one state or national government that has developed a PPP agency has later reversed its decision and the model seems to be spreading rapidly.

Despite their growing prevalence, there is a dearth of research on the universe of PPP agencies.[2] This white paper is intended as an exploratory analysis of the origin, function and global evolution of a sample of eight of the new agencies. Analysis and conclusions build upon research of archival materials and interviews with PPP agency staff and executives.

Private participation in infrastructure has had many labels over time and the nomenclature differs by language, political preference and geography. Commonly used labels include: Private Finance Initiative (PFI), Public Private Partnership, PPP, P3, Alternative Financing and Procurement (AFP), Performance Based Infrastructure and many more.[3] Despite the slight differences implied in each of these labels, the core concepts tend to be the same. For purposes of this paper the term *Public-Private Partnership (PPP)* will be used to encompass all of the above labels. It is defined as a long-term contractual arrangement between the public and private sector where mutual benefits are sought and where the private sector provides operating services and/or puts private finance at risk.[4] The term *PPP agency* refers to any body (either within or connected to government) that provides services related exclusively to PPPs to other governmental bodies, or so-called service agencies. *Service agencies* are broadly defined to include all governmental entities that may benefit from the services of a PPP agency, including but not limited to municipalities, counties, line ministries, federal agencies, departments, special districts, port authorities and the like. Of course, naming conventions associated with sovereign and sub-sovereign units of government vary tremendously around the world and, thus, the general term "service agency" is helpful to simplify our discussions.

The findings reported in this study were assembled from interviews with staff and executives at PPP agencies between February and June of 2008 as well as public data sources, predominantly PPP agency websites, service agency websites, annual reports and planning documents. The set of questions used to guide interviews is listed in Appendix 2, and a list of interviewees and primary data sources is provided in Appendix 3. The eight agencies that were studied are as follows:

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[2] To the best of our knowledge the only other study available was published in October 2007. *See*, "Public-Private Partnership Units: Lessons for their Design and Use in Infrastructure," PPIAF and The World Bank Group, pp. 1-96.

[3] The label Alternative Financing and Procurement is used in Ontario, Canada, while the label Performance Based Infrastructure has just recently emerged in California where legislation has been proposed, but not yet enacted, that would admit California to the elite club of countries who have established such agencies.

[4] *See,* Garvin, M. J. and Bosso, D. J. (2008). "Assessing the Effectiveness of Infrastructure Public-Private Partnership Programs and Projects", forthcoming in *Public Works Management & Policy*.

- Highways Agency - UK
- Infrastructure Ontario
- MAPPP (France)
- Parpublica PPP (Portugal)
- Partnerships BC
- Partnerships South Australia
- Partnerships UK
- South Africa PPP Unit

The objective of this paper is to compare the similarities and differences among these agencies, but not, however, to evaluate the merits of any one agency's strategy or structure over that of another. Despite many similarities, each agency has a unique anatomy and relationship with the superstructure of the host government. It would be misleading to think that an agency designed to fit the rules, codes and conventions of Canada, France or Portugal could be transplanted, say, to the United States, without considerable reinterpretation and recontextualization.

The paper consists of three main parts. The first part provides short descriptive profiles of the agencies investigated. The second part presents a cross-agency analysis reviewing several basic dimensions of PPP agencies, including sector focus, agency funding model, deal flow generation, and scope of professional services. The overall global evolution of what we view as a new family of more than 45 agencies worldwide is also discussed. The third part offers a road map for public officials who are planning to launch a new PPP agency, presented as a set of strategic questions.

Part I: Agency Profiles

History, Structure, Roles and Responsibilities

(Agencies are listed alphabetically)

Highways Agency – United Kingdom

History

Established in 1994, the Highways Agency is an Executive Agency of the United Kingdom's Department of Transport that is responsible for the operation and stewardship of the UK's road network. This road network supports nearly one-third of all traffic in the UK and over two-thirds of all freight traffic. The Highways Agency's Private Finance Initiative enables the entity to pay contractors for private capital repayment plus interest elements for new infrastructure development and its subsequent maintenance. The choice for public or private financing is made on a value for money basis. *Value for money* is a term of art that originated from the PPP experience in the United Kingdom and measures the degree to which a PPP procurement represents cost savings and performance improvements compared to a conventional procurement. A project may present value for money if the private sector is able to better manage the project's risk allocation or if the private sector is able to facilitate faster project delivery. Value for money is also enhanced through output specifications, performance-based payments, and the use of long-term contracts whereby bidders focus on minimizing the whole lifecycle costs of projects and not just the up-front capital costs. The value-for-money (VfM) calculation enables the selection of the best method of project delivery from among available alternatives (i.e. conventional design-bid-build, lease, concession, Build-Operate-Transfer, Design-Build-Finance-Manage, etc.).[5]

The Highways Agency formally launched its use of PPPs to procure new roads and road services in August of 1994. The Highways Agency is different from the other agencies included in this study because it does not have a specific PPP unit, but instead the roles and responsibilities of all of the procurement and project management staff changed to suit the needs of this new procurement method as it become more prevalent.

Structure

The Highways Agency resides within the UK's Department of Transport and includes eight primary business areas: Procurement, Network Strategy, Traffic Operations, Major Projects, Safety Standards and Research, Finance Services, Human Resource Services and the Information Directorate. The agency is fully funded by the Department of Transport. Its road network is divided among regions and regional operational boards are responsible for directing the allocation of resources. It employs 3,332 staff on a full time basis.[6]

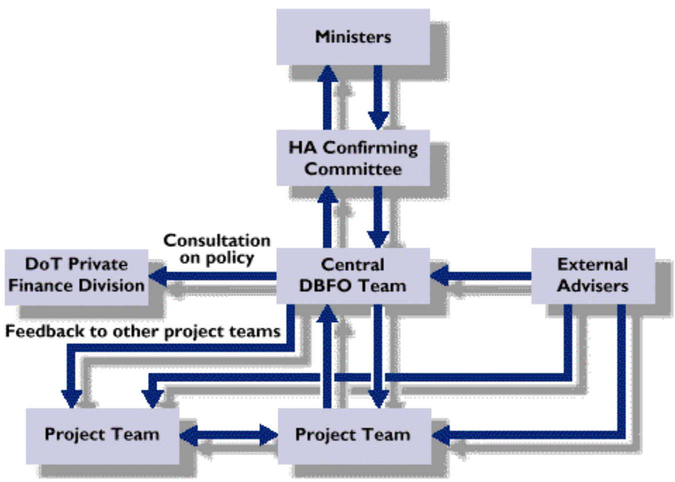
The Procurement branch manages PPP construction and maintenance contracts with private businesses and contractors. The agency uses the same reporting and team structure for each PPP (see Exhibit 1). Project teams are made of staff from the regional Highways Agency office that is respon-

[5] For an example of the calculation of value for money, see: Infrastructure Ontario, (2007) "Assessing Value for Money: A Guide to Infrastructure Ontario's Methodology," Queen's Printer for Ontario, pg. 1-23.

[6] *See,* Highways Agency. "Yearly Report, 2006-2007", p. 85

sible for a given road project. Project teams are responsible for keeping the project on track and leading negotiations. They are supported by both the Central DBFO Team and The Highways Agency Confirming Committee (HA CC). The HA CC is a committee of the agency's board of directors that gives final approval to key decisions such as selection of bidders at prequalification, selection of short-listed bidders, selection of preferred bidder and contract award. The Committee also approves the procurement strategy following those decisions. Finally, the HA CC is consulted if and when major changes to the model contract are proposed by the project team. External advisors who work across multiple projects help to ensure the development and dissemination of best practices.

Exhibit 1: Highways Agency PPP Project Team Structure[7]



Roles and Responsibilities

The Highways Agency website states that "…for Agency employees, the introduction of the [PPP] program has resulted in their role changing from procuring the design and construction of a scheme, to compiling the output specification for the road service, reviewing the bidders' proposals for the design and, following contract execution, monitoring performance. In addition, the procurement skills within the Agency have changed as a result of using the negotiated procedure. The review process, in particular, is critical." [8]

The Highways Agency seeks to efficiently manage taxpayer money by leveraging its working relationships with the private sector and by implementing best practices in the design, development and stewardship of its vast road network. The agency consults with private industry to improve contractual arrangements for new build projects and to implement other best practices in the construction and maintenance of its infrastructure assets. As a result of the success of the PPP market in the

[7] *See:* Highways Agency, "DBFO – Value in Roads," http://www.highways.gov.uk/roads/2988.aspx

[8] *Ibid.*

United Kingdom, the Highways Agency has recently expanded its mandate and now serves as a network operator for traffic management and road reliability. Resources to fund the day-to-day operations of the agency and its capital expenditures are obtained through the Parliamentary supply process, through charges for quasi-consulting activities carried out for third parties and through rental income from surplus properties.

Infrastructure Ontario

History

Functionally, Infrastructure Ontario (IO) was formed in 2005 as an arms-length crown corporation with the purpose of combining public and private expertise to expand and renew public assets. In 2006, an act was passed to legislate the corporation's powers. The formation of Infrastructure Ontario combined two existing arms-length corporations: the Ontario Strategic Infrastructure Financing Authority (OSIFA) and the Ontario Infrastructure Projects Corporation (operating as Infrastructure Ontario). OSIFA was responsible for managing loans to other public sector bodies for infrastructure projects. Today, the OSIFA loan program operates as the Infrastructure Lending Division within Infrastructure Ontario. IO oversees project procurement and management as well as the dissemination of best practices for PPP projects.

The agency serves as a center of excellence in project management for over 40 public projects. Over two dozen of these projects (whose capital costs are worth more than Cdn$6 billion) have already been brought to market. Infrastructure Ontario also provides affordable financing rates to broader public sector partners for their infrastructure needs.

Infrastructure Ontario is also different from other PPP units in that it joined with an existing provincial agency (OSIFA) that provides Ontario municipalities, universities and other public bodies with access to affordable loans to build and renew local public infrastructure.

The province of Ontario established Infrastructure Ontario to help it price and transfer the risks associated with large-scale infrastructure developments. "The old ways of financing and managing infrastructure projects were inefficient. A lot of things were done well, like setting up priorities and allocating resources, but too often projects ended up over budget and over schedule. And taxpayers paid for these inefficiencies." [9] The province did some preliminary research on Partnerships UK and Partnerships BC when setting up the agency. However, there are differences between IO and these agencies. For example, IO had projects assigned to it by the government, while the other two agencies have a greater responsibility for finding projects.

Structure

Infrastructure Ontario is an arms-length crown corporation that reports to the Minister of Energy and Infrastructure. The PPP unit is a corporation without share capital that is fully funded by the

[9] *See*: Infrastructure Ontario Website, www.infrastructureontario.ca

Ontario provincial government. IO's incurred costs for project management of PPP projects comes from individual project budgets, as approved in the related ministry's capital budget. For example, a courthouse PPP project's IO-related costs would be covered through the capital budget for the Ministry of the Attorney General. Such project delivery costs are charged on a flat-rate basis, as a percentage of the Cabinet-approved project budget. Administrative costs, on the other hand, are recovered through a grant by the Ministry of Energy and Infrastructure. The costs of the OSIFA loan program are covered through the spread between the interest rate that IO pays and the interest rate paid by clients.

Approximately 150 people are employed by Infrastructure Ontario. Board members, as well as the CEO, are appointed by the Lieutenant Governor.

The agency is divided into two main areas: Projects, and Loans and Services.

Roles and Responsibilities

Infrastructure Ontario solicits private financing for some of the province's largest projects and also provides access to affordable loans for broader sector public bodies such as municipalities and universities. Similar to the Highways Agency and other PPP agencies, the choice for pubic or private funding is made on a value-for-money basis. In order to ensure value for money in PPP projects, Infrastructure Ontario uses a template that compares the project risks that the public sector faces under the PPP financing model against the project risks of the traditional government financing approach. If it is determined that a privately financed project offers costs savings (or value for money), the project is delivered as a PPP. Infrastructure Ontario assesses value for money at three stages[10]:

- Before an RFP is released,
- Before authorization is given to enter into a project agreement (at this stage the preferred bid is compared to the public sector comparator), and
- When the value for money analysis is published (after the project agreement has been finalized, IO releases a report that contains the final value for money analysis).

IO is assigned projects by the Ontario government so the entity does not choose which projects to evaluate for alternative financing and procurement (AFP). The decision about which projects are procured under AFP rests with the Ministry of Energy and Infrastructure. Once the decision has been made to go ahead with a project, IO is responsible for setting project criteria, bringing together public and private sector organizations, conducting a procurement process to select the private sector consortia and ensuring that public interest is upheld throughout the process.

Mission d'Appui aux PPP

[10] For detailed information on how IO calculates value for money, see: http://www.infrastructureontario.ca/en/projects/files/VFM%20GUIDE%20WEB.pdf

History

France enacted a new PPP procedure in 2004. The Ministry of Finance felt that the complexity of this new procedure required a task force that would be responsible for supporting and regulating PPP projects. Mission d'Appui à la Réalisation des Contrats de Partenariat (MAPPP) was first conceived as an 'organisme-expert' in the PPP Law, and the decree creating it was adopted in 2004. The body was officially established in May of 2005. MAPPP was set up because "…it was felt that the complexity and novelty of the PPP procedure enacted in June 2004 called for a specific structure in charge of supporting procuring authorities and making sure the requirements were satisfactorily met, lest the whole approach fail." [11]

MAPPP is different from the UK Highways Agency in that it is responsible for all PPPs in France, not just highways. MAPPP is not known to have consulted with any other PPP agencies during the start-up phase.

Structure

MAPPP is a government-funded task force within the Ministry of Finance. All decisions regarding structure, roles, responsibilities and governance are submitted to the service agency for approval. Important structural decisions had to be made when the agency was first established[12]:

- **Ownership**. The Ministry of Finance decided that MAPPP should be housed within the government, instead of forming a joint venture with the private sector as Partnerships UK has done.
- **Coverage**. The Ministry also decided that MAPPP would have national coverage of all French PPPs, instead of establishing several sectoral agencies as was done in the case of the Highways Agency.
- **Functions**. It was decided that MAPPP should play an advisory role to service agencies for projects, instead of carrying out the transactions itself.
- **Authority**. All PPP transactions at the state level must be reviewed by MAPPP.
- **Financing of operations**. The Ministry opted to finance MAPPP through the national budget, and not charge per-diem or success fees to service agencies.

Roles and Responsibilities

MAPPP's primary role is assessing PPP projects before they receive approval from the Ministry of Budget. MAPPP provides the methodology for evaluating PPP projects and validates feasibility stu-

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[11] Personal interview with Francois Bergere, Secretary Generel, MAPPP. April 4, 2008

[12] MAPPP, "Missions and Operating Mode of MAPPP," Presentation by Francois Bergere, Secretary General, MAPPP. January 24, 2008.

dies prepared by the procuring authorities for governmental approval. Once a project has been proposed as a PPP, MAPPP's role is to review the preliminary assessment to ensure that it has been completed correctly, from a legal, financial and qualitative perspective.

Before any central government project is approved, it must have MAPP's go-ahead verifying that the PPP format provides legal and financial advantage over the traditional procurement approach. Many other jurisdictions call this type of review a value-for-money analysis (VfM). MAPPP does not conduct this analysis itself, but reviews the work of line ministries and issues a detailed opinion on the case for using a PPP. The project must then be approved by the Ministry of Budget to ensure that it is sustainable in the government's budget. Projects at the regional and local level do not require these approvals, but may benefit from MAPPP's technical support if they choose.

MAPPP also provides support in the preparation and negotiation of procurement and contract documents by helping the service agency select a private sector advisor to assist in the process. In addition, it has created user guides and methodological tools to assist the line ministries in conducting the PPP process. However, MAPPP is not involved in the day-to-day management of the procurement process.

MAPPP is also responsible for promoting the PPP market in France. It does this through the publication of newsletters and by participating in conferences. It has also established an 'Observatoire des PPP' to retain knowledge and lessons learned from past projects. MAPPP has a small staff, employing just six full-time professionals.[13]

Parpublica

History

Although Portugal has been undertaking PPP projects since the late 1980s, the Parpublica PPP Unit was not formed until 2003, when a formal decree was approved by the Portuguese government laying out the laws for a PPP framework. The Ministry of Finance formed Parpublica because there was a need for a more formalized and effective PPP process. The Parpublica PPP team consulted with Partnerships UK, Italy and the Netherlands in designing their unit, but did not try to imitate any of their models.

Structure

Like MAPPP, Parpublica sits within the Ministry of Finance and is charged with managing shares of state assets, managing real estate and privatizing government assets. The PPP Unit is one department within Parpublica and it is funded by the Ministry of Finance in its entirety.

Roles and Responsibilities

[13] Personal interview with Francois Bergere, General Secretary, MAPPP, April 11, 2008.

Parpublica's role was established by the Minister of Finance in August 2003, after the PPP Framework Law was passed in April of the same year.

The PPP Unit plays an oversight role for all PPP projects completed at the central government. A service agency seeking to conduct a PPP will seek the approval of the Minister of Finance, who will request an assessment of the project from the PPP Unit. While the PPP Unit has no decision-making power, it will make recommendations as to the project's feasibility and whether or not it provides "…an advantage vis-à-vis the public sector comparator." [14] In addition, the unit provides recommendations on the optimization of the PPP scheme, the draft contract and the tender rules. It also oversees the project before it is approved, before the short-listing of bidders and before the final selection. The PPP Unit is also typically involved in contract negotiations and deal closing. In addition, if service agencies need assistance with the development of a particular project, the PPP Unit will provide direct assistance.

The PPP Unit has 5 to 7 full-time staff,[15] most of them on long-term secondment from top government auditing bodies, such as Inspecção-Geral de Finanças. Full-time staff report directly to the CEO of Parpublica, and are publicly appointed to each project by the Minister of Finance.

Partnerships BC

History

Partnerships BC was founded in 2002 by the British Columbia Treasury Board with the primary objective of promoting and facilitating development of the PPP market as a means of serving the public interest and, in the process, providing cost savings and improving services to taxpayers.[16] The agency not only serves as a center of excellence, but also gets involved in evaluating, structuring and implementing PPPs. The Ministry of Finance considered many different structures for the agency, but decided that the political implications would be lessened if the agency was at an arms length from the government rather than embedded within it. Grant Main, VP of Partnership Services at Partnerships BC, served on the team set up by the Ministry of Finance to evaluate different ways of delivering infrastructure. Main's team looked at Partnerships Victoria and Partnerships UK and chose to model the new agency after certain aspects of those agencies. Main comments, "…we are most similar to Partnerships UK as an organization, except that Partnerships UK has both public and private shareholders whereas Partnerships BC is fully publicly owned. On a policy basis, our organization is most similar to Partnerships Victoria."

Structure

[14] *See,* Portuguese Republic – Despacho N* 13208/2003.

[15] Personal interview with Rui Monteiro, Head of Research, PPP Unit, Parpublica April 16, 2008.

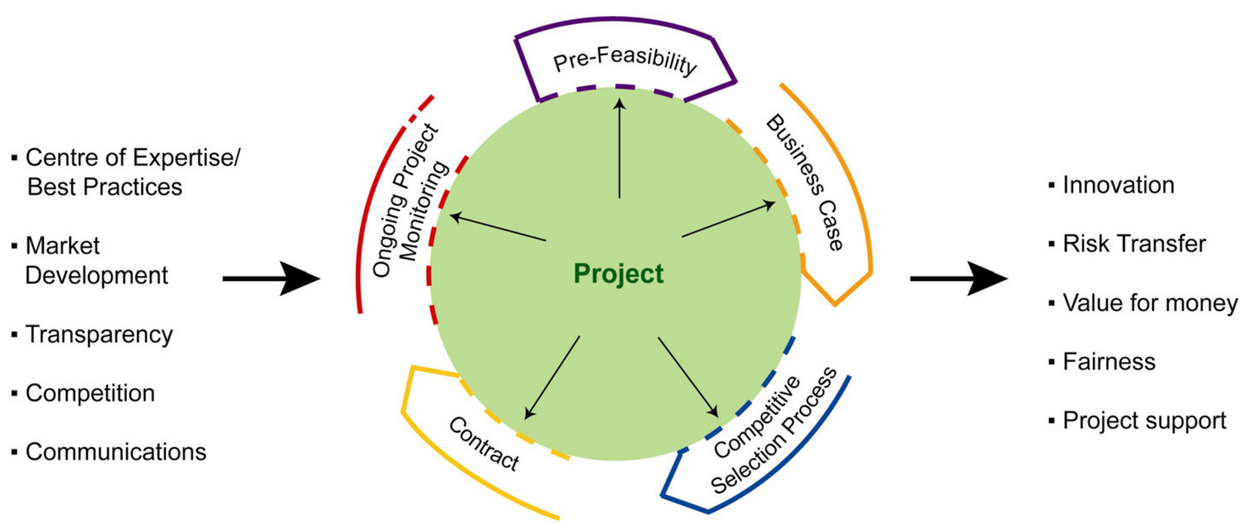
[16] Personal interview with Grant Main, Vice President, Services, Partnerships BC, February 8, 2008.

Partnerships BC is very different from MAPPP and Parpublica. It is not a task force or a department within the government proper, but a registered company that is fully owned by the provincial British Columbia government, with the Ministry of Finance serving as the entity's majority shareholder. Though Partnerships BC is fully government owned, its financial structure has evolved from a fully-government backed model to one that generates the majority of its income using a fee-for-service platform. Partnerships BC also sets its own budget and is responsible for managing its own operations and creating its own business plan. Approximately forty people are employed by Partnerships BC.

Roles and Responsibilities

Partnerships BC has the following primary responsibilities: PPP policy development; PPP feasibility analysis, business case support and competitive selection processes; and PPP contract support, ongoing project monitoring and assimilation of lessons learned. Exhibit 2 illustrates Partnership BC's roles and responsibilities. The business case phase involves the completion of an assessment similar to the VfM analysis conducted by the UK Highways Agency and Parpublica. Partnerships BC's role has changed over time as PPP market growth has enabled the company to focus more on its operating role in structuring and implementing partnership solutions rather than on its advocacy role in market development. According to Main, "Partnerships BC is now in a refining mode and we are customizing our product."

Exhibit 2: An Illustration of Partnerships BC's services[17]



[17] *See*, "Partnerships BC: A Provincial Government Perspective," Presentation by Grant Main, Infrastructure Investment Summit, June 15-16, 2006.

Partnerships BC assesses whether or not a project qualifies as a viable PPP. However, the final approval lies with the Ministry of Finance. If a project meets the qualifications for a PPP, Partnerships BC will then structure the PPP and assist the private sector with project delivery through business case development and evaluation, procurement management and the dissemination of best practices in documentation, procedures and experience.

Partnerships South Australia

History

Partnerships South Australia (PSA) has evolved over twenty years as the PPP market in the state of South Australia has matured. During the 1980s and 1990s the state was involved in the private provision of infrastructure, although deal flow was intermittent and projects were *ad hoc*. At that time, there were units within ministries that were responsible for these projects, but they lacked a permanent dedicated staff. As the PPP market grew in the late 1990s in the United Kingdom, as well as in Victoria and New South Wales, the South Australia Treasury formed a task force, formalized its own procurement guidance and started a branch dedicated to work on these projects. Over the past eight to ten years the branch responsible for these projects has solidified. In 2000, all of the state jurisdictions established formal PPP guidelines and the Australian State Heads of Treasury met and decided that PPPs were an emerging procurement model that would need careful management by central agencies. Out of this meeting, the Treasury requested that the Cabinet form a PPP Unit in 2001 and suggested that the PPP Unit reside within the Treasury. The unit was later designated as the Projects Branch and adopted a wider oversight of major projects, including PPPs. The Treasurer is the responsible Minister for South Australian PPP projects.

Structure

The Projects Branch is similar to MAPPP and Parpublica in the sense that it is a branch within the government and not an arms-length organization. It sits within the Treasury and reports to the Under Treasurer (Treasury Chief Executive). It has been funded by the Cabinet in its entirety, including both start-up and operations costs.[18] The Branch works closely with other PPP agencies in Australia and has benefited from sharing experiences with Victoria and New South Wales in both formal and informal networks. According to Steven Page, Executive Director of the Projects Branch, "This collaboration has helped both Treasury and sponsor agencies to become more intelligent buyers in these transactions." [19]

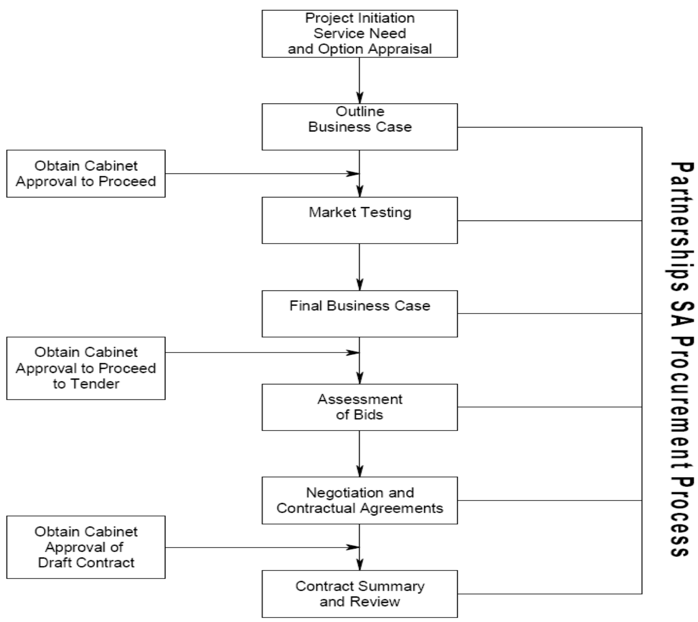
Roles and Responsibilities

[18] Personal Interview with Steven Page, Executive Director, Partnerships South Australia, Projects Branch, March 13, 2008.

[19] *Ibid.*

The primary role of the Projects Branch is to review major PPP proposals and provide advice to the Treasurer and Cabinet as to the technical and financial viability of the proposal (this is similar to a VfM review). While the Treasury has no formal decision-making power, the Cabinet is more likely to support a project that has received a positive report providing it is a Cabinet priority. The primary focus of the review is on the commercial structure of the deal (outputs, risks, performance mechanisms, payment mechanisms, etc.). Treasury must review all procurement and contract documents, the short-listing of bidders and any major decisions made by the project team. They provide a direct oversight role. Partnerships South Australia's procurement process and the various Cabinet approval processes are outlined in Exhibit 3. PSA is staffed with 14 employees.

Exhibit 3: Partnerships SA Procurement Process[20]



Partnerships UK

Partnerships UK (PUK) has a longer history than the other agencies interviewed because it was the first PPP agency to come into existence. It also has a more complex organizational structure. In order to cover these important historical and structural details, this profile is slightly longer than the others.

History

[20] "Partnerships SA," Department of Treasury and Finance, Projects and Government Enterprises, July 2007.

Partnerships UK was established in 1999 and became operational in 2000. Its primary mission is to "…accelerate the development, procurement and implementation of public private partnerships." [21] PUK was the third iteration of a PPP support mechanism of the central government of the United Kingdom. Before the creation of Partnerships UK there existed the Private Finance Panel (1992 to 1997), which was as a mechanism to bring both public and private know-how into the development of PPP policy. In 1997, the panel was superseded by the Treasury Task Force, a division within Her Majesty's Treasury that was set up to provide both policy and project development support. The initial thought was that after two years, the skills embodied in this task force could be passed on to line ministries. However, in the late 1990s, Treasury realized the importance of creating a more permanent platform of expertise in the development of PPPs and decided to create PUK to fully realize the value-for-money benefits of working with the private sector. PUK's mission is "To support and accelerate the delivery of infrastructure renewal, high quality public services and the efficient use of public assets through better and stronger partnerships between the public and private sectors." The organization recognizes that, "The success of these partnerships is fundamental to the Government's investment and modernization program." [22] An integral factor in its success is that all stakeholders are fully aware that it works "…only for and with the public sector." [23] This is the organization's way of saying that it is sensitive to perceived conflicts of interests and is focused exclusively on serving the public interest.

Structure

PUK had an innovative structure at the time of its inception as it was itself created as a public-private partnership. It is 51 percent owned by private sector investors and 49 percent owned by the public sector (44.6 percent by HM Treasury and 4.4 percent by the Scottish government). "The principal driver for this structure was to create a platform within government to attract and retain good commercial skills and other types of skills from the public and the private sectors and one of the ways to do that was to create an entity that would enjoy the freedoms of a private sector organization doing a public sector job." [24] However, PUK does not operate as a transaction consultant to government, but rather, as an integrated part of the Treasury organization. In addition, it supports procuring authorities at the central, local and regional levels of government. And yet, its innovative structure means that PUK has its own capital and the autonomy to make its own investment and operational decisions without necessarily needing the approvals typical to an entity within or wholly controlled by a government department. This structure remains innovative to this day.

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[21] *See,* Partnerships UK 2007 Annual Report.

[22] *See,* Partnerships UK Website: http://www.partnershipsuk.org.uk/PUK-Remit-Mission.aspx

[23] *Ibid.*

[24] Personal Interview with Ed Farquharson, Project Director, International Sector, Partnerships UK, March 5, 2008.

When Partnerships UK was created there were many discussions about the potential conflict of interest between its public and private sector shareholders. As a result of these concerns, measures were taken to ensure that the agency would always stay true to its public sector mission. Firstly, an additional layer of governance was put in place in the form of a public sector Advisory Council chaired by Treasury and populated exclusively by public sector officials. In addition, the roles of the private sector shareholders were restricted. Unlike shareholders of a private corporation, PUK shareholders cannot change its mission nor does PUK seek to maximize its profits or distribute dividends from its ordinary business. The private shareholders do not appoint board members from their own organizations. The original incentive for private investors was not financial; instead, they viewed it primarily as a way to help ensure government delivery of better prepared projects and in a more fashion that would benefit of the whole market by expanding options for the delivery of infrastructure in the United Kingdom. Private investors also saw their participation as a way to help renew the UK's infrastructure and improve its business environment. It is important to note that PUK was an initiative of government, not of the private sector. Its continued success depends on maintaining the trust and credibility of its public sector client base, which, apart from its regulatory functions, is not obliged to turn to PUK. Its close links with, and continued patronage by, Treasury are also a significant factor.

PUK is primarily funded on a fee-for-service basis, paid by the public service agency or department that is using its services. The fee is based on the amount of time spent by Partnerships UK on a certain project and is essentially a per-diem or daily rate agreed on a framework basis across government. Some funding also comes from overseas governments, who pay to have PUK (just as the UK government does) assist with their own PPP projects and agencies, but this is a relatively small amount relative to its UK activities.

PUK has worked with more than 14 governments around the world in providing strategic and practical support in the development of PPP programs. This work involves "…support for the design and structure of the PPP program, the development of public sector capacity including developing a PPP [unit or PPP agency]." [25] Recently, PUK has increasingly helped overseas governments in a PPP screening/quality assurance capacity—an approach that has been found to be highly effective in the UK in ensuring that projects do not stumble or fail, especially during the procurement phase. Overseas support is generally provided by a combination of missions to or from the UK, a "helpdesk" that international governments can call for assistance, and an educational program called the "PPP Foundation Masterclass," which, according to its brochure is "…a detailed introduction to PPPs for overseas governments and for those implementing PPP programs." [26] Partnerships UK has assisted the governments of South Africa, Brazil and British Columbia, as well as a number of EU countries

[25] *See,* Partnerships UK Website: http://www.partnershipsuk.org.uk/PUK-International.aspx

[26] *See,* Partnerships UK, 'PPP Foundation Masterclass Course Brochure," Partnerships UK Website: http://www.partnershipsuk.org.uk/uploads/documents/PUK%20Final%20PPP%20Course%20Brochure.pdf

in the establishment of their PPP agencies. It has also provided assistance to Mexico and India with the development of a PPP strategy and policy, and to Australia with project level quality assurance.

Since its inception, Partnerships UK has grown from an organization of 20 professionals to one with a staff 75.[27]

Roles and Responsibilities

Partnerships UK has two main roles. One of those roles—**regulatory and project review**—is mandated by Treasury. Since PUK is not a public authority it cannot actually enforce UK rules and regulations, so instead it provides technical support to the relevant government bodies. All local authority PPP projects that require central government support must be reviewed by the Project Review Group, an interministerial group that approves projects before they go out to bid. PUK is tasked with the technical review of submissions to this group. It also reviews value-for-money assessments, affordability, project governance and management, stakeholder support, bankability, level of commercial interest and adherence to standard contract (i.e. risk allocation) approaches in order to ensure that projects are sufficiently well prepared before being launched on the market. This ensures a strong competitive response, a smooth tendering process and good VfM. PUK is also tasked with reviewing any departures from standard PPP contract principles for all projects prior to contract signature. PUK itself has no decision making power but its recommendations are enforced through the relevant approval bodies.

PUK's other main role is **project, program and policy support**. PUK only takes on the project support role in approximately 10-15 percent of the PPP projects in the United Kingdom, concentrating on pathfinder, complex and large projects or projects in difficulty. Partnerships UK has increasingly become involved in the development of program approaches. The need for PUK involvement in providing direct project procurement support has declined since the establishment of standardized rules, documents and contracts for PPP procurements. However, the need for operational project support has risen as projects come on stream. The first standardized guidance on contracts stemming from the Private Finance Initiative (PFI) was developed in July 1999. Partnerships UK has updated the standardized guidance from time to time in response to changes in the market. PUK operates primarily at top level, helping with the governance of the project preparation process. Partnerships UK is not a transaction adviser, this work is typically outsourced to external advisors, but PUK will help a public authority to select, procure and manage these advisors, and will often play a role by sitting on the project management board (many of its staff have a financial, legal or technical transaction advisory or funding backgrounds).

When PUK was established, it was believed that it would also be a provider of capital for PPP projects. PUK has not needed to play this role because private players have been willing to assume development risk (it is likely that PUK acted as a catalyst for the market). However, PUK

[27] Personal Interview with Ed Farquharson, Project Director, International Sector, Partnerships UK, March 5, 2008.

does sometimes provide working capital to help departments or authorities prepare projects for market. PUK will provide the money and get repaid upon successful close of the project (plus the carrying cost of capital). The use of this service has decreased over time at a project level. However, in response to the size of the United Kingdom's PPP program, and to leverage the benefits of project replicability and more strategic approaches to investment, PUK has been increasingly called upon to pioneer program-based approaches (together with various other authorities). To this end, Partnerships UK is forming joint ventures with the relevant public sector body and becoming a co-sponsor and funder of the program delivery vehicles. As a co-sponsor, PUK invests money and know-how "…alongside government to enhance the 'intelligent client function' in its delivery programs. It sets up joint-delivery bodies with sponsoring departments to promote a step change in the way that services are delivered." [28] For example, PUK is a 50 percent partner in Partnerships for Schools (alongside the Department of Education), a non-departmental public body set up to deliver the Building Schools for the Future program. This program was established to rebuild and renew every secondary school in England (3500 schools) under a 15 year $6 billion investment program using various forms of PPPs where appropriate. A similar program in primary healthcare delivery infrastructure was also pioneered by PUK.

South Africa PPP Unit

History

South Africa's Public Finance Management Act (PFMA) of 1999 was enacted to create a good governance structure for the procurement of goods and services by the public sector. It was subsequently decided to regulate the PPP procurement option under the PFMA through Regulation 16. This led to the establishment of the South Africa PPP Unit to create a policy and regulatory framework for PPPs in the country. The goal of the PFMA legislation was to regulate PPPs to ensure that such projects were transparent, equitable and fair. The South Africa PPP Unit now serves as the regulatory and consulting body for PPPs. The country's PPP projects account for 5 to 6 percent of public infrastructure and service delivery programs. Since its inception in 2000, the South Africa PPP Unit has brought to financial close 20 PPP deals worth a combined $5.5 billion, excluding the Gautrain Rapid Rail Link which reached financial close in January 2007 at a capital value of R25 billion.

Structure

The South Africa PPP Unit is similar to most of the agencies interviewed for this study because it resides within the Ministry of Finance. Taz Chaponda, head of the South Africa PPP Unit, explains the benefits and drawbacks of this structure, thus: "…you want to be closer to the purse strings of

[28] *See:* Partnerships UK Website: www.partnershipsuk.org

the government. However, an independent agency may pay better and attract better skills. Though we have 2 finance professionals, the premium on such talent is very high." [29] The South Africa PPP Unit is 100 percent funded by the government, which allocates funds over a 3-year budget cycle.

Roles and Responsibilities

The South Africa PPP Unit has set up a "demand driven process." [30] The unit does not actively seek to develop new projects the way that Partnerships UK does, but line departments will propose potential projects to the agency. Entity regulators ensure that PPPs meet three tests: 1) affordability, 2) appropriate risk transfer from the government to the private sector and 3) value for money. This regulatory mandate has since expanded to include an internal and external consulting division to disseminate best practices. The PPP unit does not have approval authority as such decisions are made within the Ministry of Finance by the Director General of the National Treasury. Specific regulatory roles have been delegated to the Unit Head to accelerate the decision-making process. In practice, this means that the head of the PPP unit can approve certain projects in consultation with his/her counterparts in the ministry. The unit's regulatory role and participation in the Treasury's multi-stage approval process are outlined in Exhibit 4.

Exhibit 4: South Africa PPP Unit Project Cycle

The South Africa PPP Unit serves a regulatory function to protect government from wasteful projects at the national and provincial level. An interesting aspect of the South Africa PPP Unit is its focus on social infrastructure. Though sector focus has not been prescribed in any sort of manner, the PPP unit's projects mainly include office accommodation, hospital revitalization and ecotourism facilities.

[29] Personal Interview with Taz Chaponda, Head of South Africa PPP Unit, March 5, 2008.

[30] Personal Interview with Taz Chaponda, Head of South Africa PPP Unit, March 5, 2008.

The agency also focuses on transport and fleet management projects. However, the unit's mandate does not include road projects (which are under the authority of the South African Road Agency) nor commercial rail, port or pipelines (which are under the authority of Transnet). The PPP Unit has 18 employees at National Treasury, 5 of whom are support staff. Six of the nine provinces are currently developing their own PPP units, although they do not have any regulatory authority and play a technical assistance roll in conjunction with the national PPP Unit.

Part II: Comparative Analysis

Global Evolution, Functions, Sectors, Deal Size and Volume and Business Models

Evolution of PPP Agencies

PPP projects emerged internationally well before the first PPP agency was established. Projects involving both the public and private sectors, which would fall under the PPP definition today, have been undertaken for decades. PPP agencies originated in 2000 with the creation of Partnerships UK, South Africa PPP Unit and Partnerships Victoria, although precursor agencies existed in the United Kingdom starting in 1992.

These new agencies differ from traditional public works agencies, which were common in most state and national governments during the twentieth century and still exist in most countries today. The shift from public works agencies to public-private partnerships for the delivery of infrastructure can be viewed as a shift from "rowing to steering." Under the conventional model, the host government was primarily responsible for "rowing"; that is, designing, financing and operating infrastructure assets directly. Under the new model, the host government has less hands-on involvement and instead focuses on "steering"; that is, setting output specifications and supervising private sector providers to ensure they deliver value for money. Overall responsibility for assessing the needs of society, setting programmatic infrastructure investment objectives and approving new projects stays with the public sector, but the private sector takes more responsibility for delivery. As the experience with PPPs has evolved, the complexity of PPP transactions has motivated governments to create designated agencies, or departments, to focus exclusively on designing, implementing and monitoring these deals. The agencies also play an important role in creating internal expertise and assimilating lessons learned. Several agencies were created with other functions in mind, such as assisting the government in establishing PPP policy, assessing the feasibility of conducting projects via the PPP format, developing the PPP market, and providing technical assistance in navigating the sometimes complex approval, procurement and contractual issues that arise in these types of projects.

Exhibit 5 illustrates the timeline of the establishment of PPP agencies globally. It also shows linkages between agencies where it is known that an early adopter was consulted by a later adopter. As one of the first agencies, Partnerships UK is still seen as a leader and is often contacted for input on structure and strategy by start-up agencies. PUK has even established a consulting service to assist other state and national governments in forming their own agencies because "…the UK's experience and, increasingly, the experience being gained in other countries in the successful development of PPPs has valuable lessons for those countries starting out on the road to develop their own PPP programs." [31] Partnerships Victoria has also been consulted by other start-up agencies. Line agencies setting-up a new agency often look to their counterparts in other countries so in order not to have to re-invent the wheel. For example, Portugal's Parpublica was established following consultation with agencies in the United Kingdom, Italy and the Netherlands. Partnerships BC's task force consulted and studied Partnerships UK and Partnerships Victoria, and Infrastructure Ontario consulted with Partnerships UK and BC. Consultation can take the form of interviews with top executives at other agencies, visits by delegates either to the agency being studied to gain a hands-on understanding of how they operate, or from the agency being studied to allow for hands-on assistance in establishing the new agency.

Some countries not only consult with more experienced agencies during the process of developing their own PPP structures, but they also model part or all of their new agency after an existing model.

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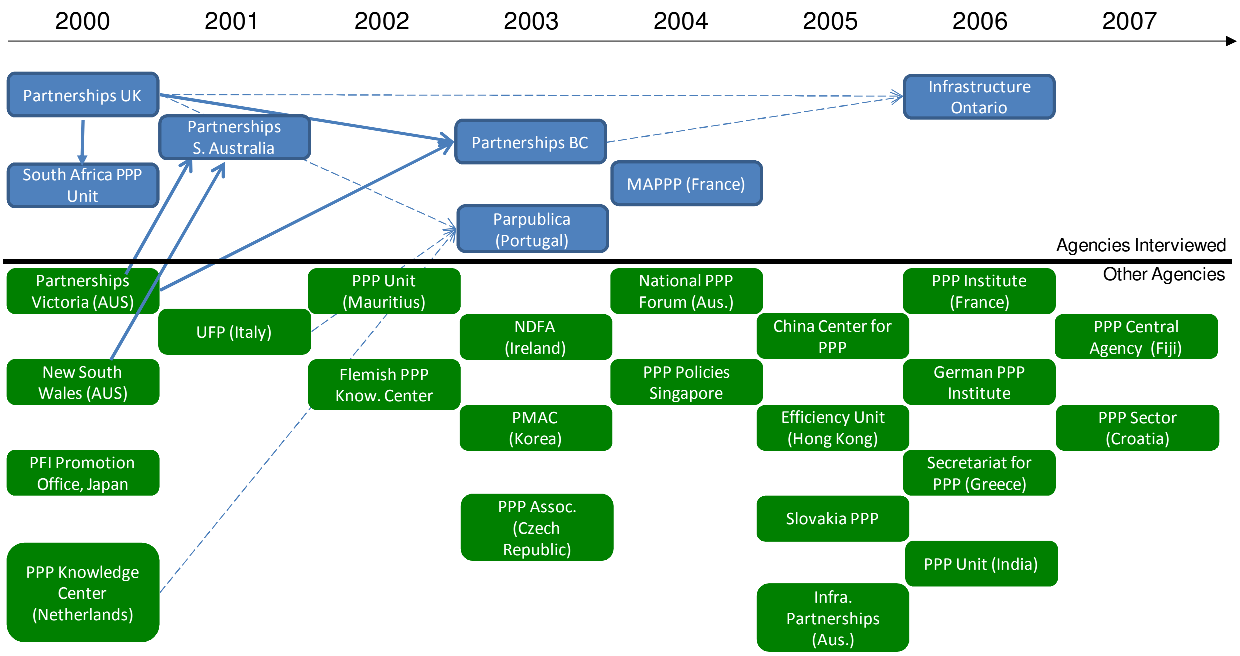
[31] *See*: http://www.partnershipsuk.org.uk/PUK-International.aspx

For example, Partnerships BC is a hybrid of the PUK and Partnerships Victoria models. Partnerships South Australia is modeled after both Partnerships Victoria and New South Wales.

Exhibit 5: Evolution of PPP Agency Development



Legend: Dotted Line – Consulted with Agency; Solid Line – Modeled after Agency

Although mimicry is not uncommon, many of the agencies interviewed stated that modeling after an existing agency can be difficult—and even problematic—due to differences in bureaucratic structure, legal and political environment, and host country conditions and conventions. After having been consulted by many start-ups, Partnerships UK is especially sensitive to this fact. In our interview, the PUK's International Sector Director noted that other countries should not model directly after PUK for this exact reason. In his own words, "An agency must be structured and run in a way that is optimal for PPP transactions in the particular government, and what works for one country may create problems in another."

Despite the differences, all of the agencies interviewed that are not sector-specific are located within the central government (typically in the Treasury or Ministry of Finance) or in a separate arms-length corporation partnered with a central government agency. According to MAPPP, the advantages of situating the agency within the government include better coordination with public entities, mitigation of potential conflicts of interest, and greater and easier access to key decisionmakers. Disadvantages include limited credibility with the private sector, constricted salary scales that make it difficult to retain top talent, governmental bureaucracy and red-tape, and greater restrictions calling for traditional procurement methods.[32]

[32] *See,* "Missions and Operating Mode of MAPPP", Francois Bergere, Secretary General, MAPP. Presentation January 24, 2008.

When staffing the PPP agency, the majority of countries recruited members of the initial planning task force. Once in operation, many agencies, such as Partnerships BC and Infrastructure Ontario then recruited employees with relevant financial or commercial experience from private industry or line agencies. Some agencies, such as Parpublica, simply borrow the majority of professionals from line agencies rather than recruiting employees externally. One criterion that PUK considered when becoming a PPP was how to attract and retain top talent. It believed that it would need to be separate from the government in order to offer competitive compensation that would attract the most experienced staff.

Functions

There are three common arguments for administering public-private partnerships through agencies as opposed to on a one-off, *ad hoc*, uncoordinated basis. First, the agencies are said to provide a staff of highly-experienced and professional investment banking, legal and infrastructure experts with an ability to negotiate head-to-head with their private sector counterparties in the large global investment banks, law firms and infrastructure operators. Thereby they are able to ensure a better outcome for the state during the initial negotiations. Next, the agencies are purported to create standardized, consistent RFPs and deal-flow, which makes it possible for the private sector to familiarize itself with the bidding process. This format minimizes transaction costs and attracts many global players to bid, which, in turn, maximizes competition, innovation and value for the state. Finally, the agencies are said to provide institutional memory and an ability to capture best practice and lessons learned so that the state's ability to engage the private sector in infrastructure delivery improves over time (this is not the case when the government relies on consultants for everything). While these general roles are found across the cross-section of agencies interviewed, not all agencies have internalized each of these roles.

We have sorted the agencies into two main categories, based on their roles and responsibilities; namely, review bodies and full service agencies, as defined below.

- **Review Bodies**: Those agencies primarily responsible for reviewing project business plans and providing recommendations to decision-making bodies.
- **Full Service Agencies**: Those agencies that in addition to the responsibilities of review bodies also provide consulting to service agencies, develop the PPP market in their jurisdiction and sometimes offer capital or additional services.

A third category, a so-called **Center of Excellence**, is also thought to exist. However, this type of agency was not encountered during the course of the research. A center of excellence would not actually review project business plans in a regulatory capacity, nor would it provide consulting services to service agencies, but it would compile and disseminate research, information and best-practice. It is thought that the center of excellence model could provide an intermediate stepping stone for a state wanting to explore the PPP option before establishing a review body or full service agency.[33]

[33] California Assemblywoman Anna Caballero proposed a bill to create a PPP Center of Excellence that would "advise and educate local agencies and other interested stakeholders about the role that public-private partnerships can play in local infrastructure projects." The bill was "held in committee" in early 2008, which ostensibly means that it was killed by committee leadership. *See:* http://www.assembly.ca.gov/acs/acsframeset2text.htm

Of the agencies interviewed, only Infrastructure Ontario, Partnerships UK and Partnerships BC are considered to be full service agencies, while the rest are primarily review bodies, although some may offer a few additional services beyond their regulatory role.

The services and functions of PPP agencies fall into the four principal categories depicted in Exhibit 6. These categories broadly mimic the life stages of PPP transactions: (1) Business Planning, (2) Procurement Process, (3) Project Implementation and (4) Market Development.

Exhibit 6: Agency Services and Functions

	Review Bodies			Full Service Agencies		
	MAPPP (France)	Partnerships South Australia	S. African PPP Unit	Infra. Ontario	Partnerships BC	Partnerships UK
Business Planning						
Assess Project Feasibility	I	I	I	D	I/O	I/O
Develop / Review Business Plans	I	I	I	D	I/O	I/O
Approve PPP Projects						
Provide Recommendations to Approval Bodies	D	D	D		D	D
Assist in Finding a Project Advisor	D	D	D	D	D	D
Procurement Process						
Develop Standard Documents (RFP, Contracts, etc.)	I/O	I	I	I/O	D	D
Procurement Support	I/O	I	I/O	I/O	D	D[2]
Bid Evaluation	I	I	I	I/O	I/O	I/O
Contractual Support	I	I	I	I/O	I/O	I/O
Project Implementation						
Project Management				D	D	D
Financing				D[1]		D[3]
Technical Support				D	D	D
Market Development						
Determine and Share Best Practices	D		D	D	D	D
Public Relations			D	D	D	D
Develop PPP Policy		D	D		I/O	I/O
Development of PPP Market (increasing # of bidders, etc.)	D		D		D	D

Legend:
I: Indirect Oversight – review documents/decisions, but not involved in day-to-day work. **D:** Direct Involvement – involved in the day-to-day work alongside the advisor or service agency.
Note:
1. Infrastructure Ontario provides loans for infrastructure projects through OSIFA. (Loans are not exclusively for PPP projects).
2. PUK sometimes co-sponsors procurements through a joint venture agreement with a public sector body.
3. PUK has working capital for project preparation and invests in project commercialization, but does not finance PPP delivery.

Business Planning

One striking trend observed across all agencies is that none have formal responsibility to approve new PPP projects. Authority for approval typically falls to the Treasury, Cabinet or service agency depending on the governmental structure of the individual country or state. However, all of the agencies studied, with the exception of Infrastructure Ontario, are responsible for reviewing project feasibility studies and business plans and then making a recommendation to the requisite review bodies. Most agencies stated that the decision-making body almost always follows their recommendation; therefore, they still have a lot of sway in the approval process. Some agencies, such as Parpublica, PUK, Highways Agency and PBC also provide assistance in the development of business plans and value-for-money analysis to line ministries. Others, such as MAPPP, PSA and the SA PPP Unit, only review documents and feasibility reports created by service agencies. Infrastructure Ontario is assigned projects by its host ministry, which approves infrastructure projects to be procured as a PPP from all of the provincial service agencies.

For most agencies this project review role (the main responsibility of the 'review bodies' category of agencies) is their main governmentally-mandated function, which requires that the PPP agency review and sign-off on all (or almost all) PPP projects. Most other roles and responsibilities are typically far less structured, and the nature of the work can vary according to project complexity and expertise of the corresponding service agency staff.

Overall, the establishment of PPP agencies has not minimized the need for independent consultants to act as project transaction advisors for the service agency. In fact, all of the agencies interviewed actively promote the use of a project transaction advisor to assist line ministries in the process of procuring their services, even those that have internalized their own project support services, such as Infrastructure Ontario, PUK and Partnerships BC.

Procurement Process

As seen in Exhibit 6, the level of involvement in the procurement process varies dramatically by agency, although all agencies have the capabilities for some level of involvement. The level of involvement also varies on a project-by-project basis within each jurisdiction.

For example, PUK has developed very standardized procurement and contract documents that allow the majority of PPP transactions to be developed independently by the line ministries. However, Partnerships UK also has a support arm to assist in more complex deals. The Highways Agency's procurement team continually improves contractual arrangements with the private sector and has standardized processes to reduce the average new major road build time down from 12-15 years to 7 years.[34] The primary function of the South African PPP Unit is regulatory, but it has also developed an internal and external consulting function to disseminate and consult on best practices in procurement. Partnerships South Australia has established a standardized procurement process, but is not directly involved in its implementation. Instead, it plays an oversight and review role at all stages in the process.

Project Implementation

Most agencies are not involved in project implementation. Once the winning bidder has been selected and the contract is signed the agency is typically not involved any further in a project management or technical support role. Exceptions to this are the Highways Agency, Infrastructure On-

[34] *See,* Highways Agency Annual Report, 2006-2007, p. 15.

tario, Partnerships BC and Partnerships UK, which are involved in a consulting capacity for both project management and technical support (this generally takes the form of contract management). While this falls under the service agency directly, the agency may be called in to assist with complex situations.

Partnerships UK and Infrastructure Ontario are also involved in a financing capacity, as explained in the respective profiles. PUK is the only agencies that has its own capital to spend in this fashion (see the Revenue Model section), while Infrastructure Ontario's loan program is funded directly by the province, with IO acting in the implementation role. It is important to note that capital from both agencies is available (within specific guidelines) to all infrastructure projects, not only those procured through a PPP.

Market Development

We have defined market development as tasks that improve the climate for PPP transactions in an agency's jurisdiction. While all of the agencies interviewed do contribute to some aspect of market development (as seen in Exhibit 6), the general trend is that those agencies that are more arms length from the government (such as IO, PBC and PUK) have a greater role in this regard. The exception is the South African Unit, which is both housed within the government and also plays a large role in this area. Positive response to PPPs from private industry has enabled agencies such as Partnerships BC and Highways Agency to focus less on market development and more on the implementation of best practices and on refining company operations.[35]

Market development activities across agencies include:

- "Fostering a business and policy environment for successful PPPs and related activities by offering a centralized source of knowledge, understanding, expertise and practical experience…." [36]
- Educating potential bidders on PPPs.
- Assisting with the development of PPP markets in other jurisdictions.
- Working with service agencies to develop internal knowledge of PPPs.
- Collecting and disseminating PPP best practices from past projects.

Sectors and Requisites for Qualification

The majority of the agencies interviewed did not have a particular sector focus (such as roads, hospitals, defense, etc.). In most countries, any PPP contract let by the government in which the agency has a responsibility (e.g., the Province of British Columbia in the case of Partnerships BC, or the Government of France in the case of MAPPP) is under the jurisdiction of the PPP agency. Therefore, the sector responsibility of the agency corresponds to the infrastructure jurisdiction of the home government. There are a few exceptions to this rule. In two of the jurisdictions interviewed, the United Kingdom and South Africa, a different agency or ministry has responsibility for PPPs in some sectors. In the UK, the Highways Agency is responsible for all road transactions. In South

[35] *See,* Annual Report, Partnerships BC 2007; Annual Report, Highways Agency 2006-2007.

[36] *See*: http://www.partnershipsbc.ca/files/about.html

Africa, the South Africa National Road Agency handles road transactions and TRANSNET controls commercial rail, ports and pipelines deals. In addition, power transactions are treated differently. In South Africa, power is controlled by Independent Power Producers (IPPs), thus they do not fall into the legally defined role of the agency. Nevertheless, the agency will serve as an advisor if requested.

Despite the broad sector focus of most of the agencies, the actual deal flow tends to be focused on a few sectors in each country. For example, Infrastructure Ontario's current projects are focused in health care, Partnerships BC's projects are focused on transportation and health care and Partnerships South Australia's projects are in education, corrective services (courthouses and prisons) and health care.

Volume and Size of PPP Deals

As seen in Exhibit 7, the United Kingdom has the most established market both in terms of number of deals serviced and total deal size. The volume and size of PPP deals by agency is a reflection of the market development and the extent to which private industry in each country has accepted PPPs. For instance, Partnerships UK has managed the greatest amount of projects both in terms of volume and monetary value and has experienced among the strongest PPP receptions within the business community. Such market growth enables these agencies to focus on operations and to expand their mandate. The success of the PPP market in the United Kingdom has allowed Partnerships UK to focus more of its time and resources on evaluating, structuring and implementing partnership solutions to ensure successful PPP project delivery. Strong market development within the UK has also enabled the Highways Agency to expand its mandate and also focus on traffic management. Success in Canada led to a similar phenomenon. "[T]he evolution of the PPP market in British Columbia has created a shift in [Partnerships BC's] role. Earlier on, we were focused on building the market, but now, we have a better base of documentation that we are bringing to market, which makes it easier to take a project to market. This has allowed us to focus more on improving project delivery." [37]

Exhibit 7: Value and Number of Deals by Agency

[37] Personal interview with Grant Main, Vice President, Services, Partnerships BC, February 8, 2008.

	Value of Deals ($B)	Number of Deals
Highways Agency	$158.0	846
Infrastructure Ontario	?$6.0	40+
MAPPP	$5.8	147
Parpublica	$10.2	49
Partnerships BC	$4.5	23
Partnerships Victoria	$5.5	17
Partnerships UK	$61.7	450
South Africa PPP Unit	$4.5	18
Total	**$256.2**	**1590**

The process by which PPP agencies review potential PPP structures affects the size and scope of a PPP unit's project portfolio. In several countries, service agencies have the right to determine which large capital projects to recommend for evaluation by the PPP agency and which projects to finance internally. South Africa's service agencies present a government project to the PPP unit at their own discretion, which reduces the volume and scope of projects reviewed at the PPP agency level. However, Partnerships BC benefits from a receptive private investment community; this means that government agencies must now present every public infrastructure investment initiative over Cdn$20 million dollars to the agency for PPP qualification review. Infrastructure Ontario is currently operating under a 5-year infrastructure investment plan (called "Renew Ontario") that outlines the scale of infrastructure investment, both in PPPs and traditional procurement, as well as the sectors in which these investments will be made.[38] In addition, Infrastructure Ontario is only mandated to work on projects assigned to it by the province, therefore, the size and scope of its portfolio is managed by a central service agency.

Finally, it is difficult to measure the capabilities and effectiveness of a PPP organization by evaluating its PPP project generation and deal size since each PPP unit may play a very different role in a government project. For instance, the South Africa PPP unit may only be responsible for recommending the qualifications of a PPP project to the Finance Minister, while Partnerships UK may be involved in both PPP qualifications and in the financing, design, construction and management of a PPP project.

Business Models

Exhibit 8 illustrates that the majority of PPP agencies are government funded and will recommend a project for a PPP to the treasury or finance line unit based on its value-for-money proposition. The focus on value for money and efficiency creates a set of metrics upon which to measure the success

[38] *See*: http://www.pir.gov.on.ca/english/infrastructure/renew.htm

of a PPP project and the performance of the PPP agency. Specific mandates, such as the Highways Agency which focuses purely on road and highway projects, enable a PPP unit to develop the core competencies in procurement, construction and management that leads to efficiency gains.

Our research team anticipated that some of the PPP agencies might receive compensation based on performance measures, or as a percent of deal size, such as the success fees that are typical in the investment banking world. We were surprised to find that this was not the case. Some of the agencies do receive fees for service, but most are funded entirely out of their host government's budget (see Exhibit 8). Budgeted funding tends not to be determined on a per-service or per-project basis, but set by budgetary process. The government-funded revenue model is especially logical for regulatory body agencies because it ensures independence in regulatory oversight.

A portion of the revenues of more "full service" PPP agencies tends to come from fees-for-service based on the consulting services that they provide to service agencies for procurement and project implementation. However, administrative costs and project review activities may still be funded through direct government funding. Fees may be paid by service agencies, private sector bodies, and in the case of PUK other international governments, in accordance with the scope of the agency's roles and responsibilities.

One benefit of the fee-for-service model is that agencies that attain some degree of financial self-sufficiency are probably more immune to cyclical changes in political leadership and better positioned to defend the integrity of PPP contracts within the larger government. Lower perceptions of political risk will encourage greater numbers of international players to enter the market, foster more competition, and in the end ensure better value for the public. However, one of the challenges when an agency is motivated by service fees is the perverse incentive to promote deal making and, in the worst scenario, overbuilding in the infrastructure sectors.[39]

Exhibit 8: Revenue Models

	Government Funding	Fee for Service	Performance Based
Highways Agency	X	X	
Infrastructure Ontario	X	X	
MAPPP	X		
Parpublica	X		
Partnerships BC	X	X	
Partnerships S Australia	X		
Partnerships UK	X	X	
South Africa PPP Unit	X		

[39] One idea to reduce the likelihood of this scenario, would be to cap the service fees that the PPP Agency could generate, at, say, 120% of prior year's operating budget. Excess service fees could be reinvested in state infrastructure projects, or, perhaps to further align incentives, returned to Treasury or central government.

As the depth and breadth of a country's PPP market evolves so may the PPP unit's funding structure. For instance, Partnerships BC started as a unit that was solely funded by the Government of British Columbia, but as it developed core competencies, other agencies and even private industry now use Partnerships BC's consulting services on a fee-for-service basis. PBC now generates the majority of its income through such charges to its private and public customers.

Part III: Road Map for Public Officials

Guiding Questions to Consider When Designing PPP Agencies

PPP agencies vary in many ways. Some agencies best serve their mandate as a centrally located review body, while others do so as independent full service entities. One important lesson that emerged during the course of this study was that there is no global best practice for agency set-up. A successful agency needs to be tailored to the structure, practices and objectives of the host government and will probably emerge as a hybrid of elements of many different global models.

Given that many countries have gone down the PPP agency path, there is now an abundance of information available for decision makers in states who are contemplating a new agency. Strong cross-country networks have also been formed. New entrants to the PPP market are advised to become embedded in this global community of practice.

As public officials contemplate the development of a new PPP agency they should consider the following questions, which present a road map for agency design:

1. Templates – Which of the agencies already formed in other countries represent good organizational templates, given similarities and differences in cultural, political, legal, budgetary and regulatory factors?

2. Stakeholder Outreach – Which stakeholders will be the strongest supporters and staunchest critics of the agency? Which of these stakeholders should be involved in structuring agencies? How will their different interests affect the dialogue in the structuring process?

3. Structure – Where will the agency be placed within government? Will it be placed within the Treasury, or another executive office, or be a quasi-corporate entity, or a joint venture with the private sector? Will there be a board of directors?

4. Horizontal Span – Will the agency be sector-specific such as the Highways Agency? Or will it have a broader mandate with multiple sectors, such as transport, social, water, etc? Let S be the number of substantive areas and N be the number of PPP coordinating entities. Where is N between 1 and S? If N<S how should substantive areas be combined?

5. Vertical Coverage – Will the agency deal only with state-wide infrastructure programs that are administered at the state level, or will it support cities, counties and/or regional authorities? Would large, rich counties benefit from PPP agency services, or might they prefer to administer their own programs on an independent basis? [40]

6. Mandate – Will the agency be a regulatory oversight body or a full-service entity? Will it have market development, center of excellence and educational outreach functions? Will these roles evolve over time, and if so, how?

7. Functions – Which roles—of those outlined in Exhibit 6—will the agency play? Are some of these roles optional? Are others going to be mandatory across all projects?

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[40] Items four and five on this list were articulated by Roger Noll, Emeritus Professor Economics, Stanford University.

8. Funding – Will government funding be available in the long run or will it only cover start-up costs? [41] Will it be possible to charge service fees? Will there be a long-term goal of profitability and independence from existing government structures to improve the reliability of the PPP agency in carrying out its objectives despite changes in political leadership or budgetary shortfalls?

9. Value-for-Money Assessments – What metrics will be selected to compare the costs and benefits of conventional methods of project procurement to PPP methods (i.e. competition, risk transfer, life cycle performance enhancement)? Who will prepare, review and approve these value-for-money assessments? How can this process be established to ensure that these reports are transparent, unbiased and undisputable?

10. Phasing – How quickly will the agency be phased-in? Will it be a "big bang" approach, with the agency written into law based on an executive, parliamentary or legislative decision? Or will it be an "incremental" approach, starting out as a center of excellence that offers more basic educational and research functions? Or will it be an "aggregation" approach bringing heads of sectors or regions that are doing PPPs on a one-off, *ad hoc* basis together to share lessons learned with the eventual goal of having the group articulate overriding objectives?[42]

11. External Transaction Advisors – To what extent will the agency rely on external transaction advisors and consultants (who may have much knowledge globally from various PPP markets in planning, structuring and negotiating transactions with private consortia) versus employ staff in-house? And how will this change over time?

12. Pay Scales – Will the agency be able to retain top legal, banking and infrastructure talent?[43] Or will the differential between private and civil service pay scales lead to top agency staff members

[41] If government start-up funds are unavailable, as in states with substantial budget deficits like California, then other options must be considered. One option is for the host state to have private partners as investors, which is how PUK was formed. Discussions in California have led to creative proposals to fund start-up costs through a not-for profit entity, which in the context of California might be viewed as less controversial than having private partners. Finally, although it has not been tried before, it might be possible to fund start-up costs through a market-rate loan from a commercial bank, based on the observation that many PPP agencies examined in this study are financially sustainable as independent businesses.

[42] An incremental approach discussed in the context of California is to assemble agencies that oversee specific kinds of facilities that members of the Legislature want to be able to deliver to their constituents (and, they realize, may not be able to do so), such as solar power. The idea is to create an informal steering committee or a stewardship out of the Governor's office that would include advisers from the Governor's office, Attorney General's office, Department of General Services, Treasurer's office, Caltrans and Administrative Office of the Courts. The advisers would talk about what they were doing in their agencies in order to coordinate various agency actions without trying to standardize anything. One by one the agencies would take proposals to the Legislature for broader private engagement in project delivery. The eventual goal would be for the committee to articulate overriding State goals based on its experience. If, over time, the steering committee were expanded and reached a critical mass that was worth making permanent, it could then be institutionalized. The steering committee could not only serve an informal function to achieve state goals in the short term, it could also form the organizational basis for a more permanent authority. This would likely be a two- to five-year approach.

[43] The process of transferring risk through concession agreements necessitates relatively complex negotiations between the public and private sectors; the public sector wants to ensure value for money and protect the public interest; the private sector wants to maximize its profits. In order for the state to go "toe-to-toe" in negotiations with highly expe-

being poached by the private sector? Is it possible to offer performance-based compensation through a quasi-private corporation, similar to the PUK model?

13. Standardization of Contracts – How quickly will contract forms for PPP procurement be standardized? What is deemed to be sufficient experience within a given legal, commercial and administrative context before contract forms can be hardened into standardized documents, without risks accidentally standardizing errors and omissions?

rienced executives from the private sector who are motivated by performance-based pay scales, the state needs to have pay-scales and incentive systems that will allow it to retain a similarly experienced and motivated staff.

Appendices

Appendix 1 – Known Universe of PPP agencies[44]

Country	PPP Agency	Year Founded
Australia	National PPP Forum	2004
	New South Wales	2000
	Infrastructure Partnerships Australia	2005
	Partnerships Victoria	2000
	Partnerships South Australia	2001
Bangladesh	Infrastructure Investment Facilitation Center	na
Belgium	Flemish PPP Knowledge Center	2002
Canada	The Canadian Council for Public Private Partnerships	1993
	Partnerships British Columbia	2003
	Canadian Health Coalition - PPPs (P3s)	na
	Infrastructure Ontario	2006
China	China Center for Public Private Partnerships	2005
	Efficiency Unit - The Government of the Hong Kong Special Administration Region	2005
Czech Republic	PPP Association	2003
	PPP Center	2004
Croatia	PPP Sector, Trade and Investment Promotion Agency	2007
Fiji	Fiji Government - PPP	2007
France	PPP Unit of the Ministry of Economy, Finance and Industry (MAPPP)	2004
	Club de Promotion des Contrats de Partenariats Public-Prive	na
	Centre d'Expertise Francias pour l'Observation des Partenariats Public-Prive	2006
	L'Institut de la Gestion Delequee - The French Institute for PPP	2006
Germany	Public Private Partnership Task Force	2006
	PPP in Niedersachsen	na
	PPP task Force Nordrhein-Westfalen	na
Greece	The Special Secretariat for PPPs	2006
Ireland	The Irish Government Public Private Partnership	2003
India	Ministry of Finance, PPP Unit	2006
Israel	Ministry of Finance, PPP	2003
Italy	Technical Unit for Project Financing - Italian PPP Task Force	2001
Japan	PH Promotion Office	2000
Korea	Public Private Infrastructure Investment Management Center	2003
Malta	Ministry of Finance - The PPP Unit	na
Mauritius	Ministry of Finance and Economic Development - PPP Unit	2002
Netherlands	PPP Knowledge Center	2000
Poland	PPP Institute	na
Portugal	Parpublica	2003
Singapore	Ministry of Finance, PPP Policies	2004
Slovakia	Partnership for Prosperity	na
	Ministry of Finance PPP	2005
South Africa	National Treasury, PPP Unit	2000
UK	Partnerships UK	2000
	PPP Forum	2001
	4ps	1996
	HM Treasury - The Private Finance Initiative (PFI)	na
	National Audit Office - PFI and PPP Recommendations Database	1997
	The PPP Arbiter	2002
USA	American Public Transportation Association	2006
	Federal Highway Administration - Public Private Partnership	na
	National Council for Public Private Partnerships	2002

[44] *Source*: Serco Institute Resource Centre. *See*, http://www.serco.com/instituteresource/index.asp

Appendix 2 – Interview Guide

1. Background on Interviewee

- What is your position and your responsibility within your agency?

2. History

- When was your organization founded?
- By what body was your organization founded?
- Why was the decision made to create a PPP agency?
- Did you model your agency after an existing PPP agency? If so, which other agencies did you evaluate?
- What steps were required to create your agency?
- How long did the set-up take?
- Who made decisions regarding structure, roles and responsibilities, governance, etc.?
- How has the decision-making process to do a project via the traditional public procurement vs. the new PPP agency evolved?
- What percentage of infrastructure projects are done via PPP vs. other methods?
- What was the main resistance (political, public, other?) to the decision to create a PPP agency? What was your main challenge while creating the agency?

3. Roles and Responsibilities

- What is your PPP agency's mandate?
- What are the sectors/industries over which the agency has authority?
- How has this evolved over time (e.g., in what years did these changes take place)?
- Why did this scope change?
- How is the agency funded?
- In the PPP process what roles/responsibilities does your agency cover?
- Have these roles and responsibilities changed over time?
- What tools or measures do you have in place to ensure a fair and open procurement process?
- Who are your financial stakeholders?
- Who are your operational stakeholders (main business partners)?
- What major recent projects has your organization worked on? What is the size of each project?
- Can we find the number of projects that your firm has serviced and the total size of these projects online?
- Looking back on your mandate and structure, would you change the roles and responsibilities of your agency?

Appendix 3 – Interviewees and References

Interviewees

- Francois Bergere, Secretary General, MAPPP
- Taz Chaponda, Head, South Africa PPP Unit
- Ed Farquharson, Project Director, International Sector, Partnerships UK
- Mary Lowe, Vice President, Communications and Corporate Relations, Infrastructure Ontario
- Grant Main, Executive Director, Partnerships BC
- Rui Monteiro, Head of Research, PPP Unit, Parpublica
- Steven Page, Executive Director - Projects Branch, Partnerships South Australia
- Mel Zuydam, Finance Director, Highways Agency

Agency Websites

- Highways Agency: http://www.highways.gov.uk/
- Infrastructure Ontario: http://www.infrastructureontario.ca/
- Parpublica: www.parpublica.pt
- Partnerships BC: http://www.partnershipsbc.ca/
- Partnerships South Australia: http://www.treasury.sa.gov.au/dtf/infrastructure_support/projects_branch.jsp?
- Partnerships UK: http://www.partnershipsuk.org.uk/
- South Africa PPP Unit: http://www.ppp.gov.za/

Additional References

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- PPIAF and The World Bank Group (2007). "Public-Private Partnership Units: Lessons for their Design and Use in Infrastructure," pp. 1-96.
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- The Serco Institute Resource Centre: http://www.serco.com/instituteresource/index.asp