Chapter 1
Introduction to Public-Private Partnerships

Highlights

- Public-private partnerships (PPPs), if implemented well, can help overcome inadequate infrastructure that constrains economic growth, particularly in developing countries.
- PPPs have seen a rise in the last two decades and are now used in more than 134 developing countries, contributing about 15–20 percent of total infrastructure investment.
- Conceptually, PPPs are an instrument to respond to market failures while minimizing the risk of government failure.
- The World Bank Group has deployed a wide range of instruments and services targeting PPPs during FY02–12—and in increasing numbers. In its support, International Finance Corporation (IFC) Investment Services and the Multilateral Investment Guarantee Agency focused on middle-income countries, whereas the World Bank and IFC Advisory Services tend to support lower-income countries.
- This evaluation assesses how well the World Bank Group has supported countries in applying PPPs from 2002 to 2012, both “upstream” in preparing the enabling policy and regulatory environment, as well as “downstream” with transaction support and finance.
- The assessment focuses on the core types of PPP arrangements that have a similar level of risk sharing between the public and private sides.
- Beyond broader economic effects, PPPs can benefit the poor through several channels, including by creating jobs or improving service provision in a targeted manner.

PPPs, if implemented well, can help overcome inadequate infrastructure that constrains economic growth, particularly in developing countries. Infrastructure investments are known to accelerate much-needed growth in developing countries and reduce income disparities.[1] But poor infrastructure is often a reflection of several constraints governments face, for example, insufficient public funds, poor planning, weak analysis underpinning project selection, or corruption. Infrastructure assets are also often poorly maintained (WBI 2012).

PPPs can help overcome some of these challenges by mobilizing private sector sources, helping improve project selection and on-time and on-budget implementation, and ensuring adequate maintenance. Although initially restricted to public infrastructure in the form of roads, railways, power generation, or water and waste treatment facilities, PPPs have increasingly moved into the provision of so-called “social infrastructure,” such as schools, hospitals, and health services.

PPPs have become more common not only in the aftermath of the 2008 financial crisis, as governments are eager to leverage scarce public funds but have seen a rise in developing countries over the last two decades. More than 134 developing countries apply PPPs, contributing about 15–20 percent of total infrastructure investment.[2] Widely utilized because of their purported advantages in off-budget funding, anticipated efficiency gains, and improved service quality, PPPs are a mechanism that governments regularly turn to in fulfilling their responsibilities regarding public infrastructure and service—a phenomenon increasingly taking hold in developing countries (Colverson and others 2011).

In parallel, in its effort to spur growth and fight poverty, the World Bank Group has expanded its assistance to developing countries in improving access to infrastructure and basic services through PPPs. The Bank Group's portfolio addressing PPPs grew during FY02–12, with 20 units currently contributing to the PPP agenda—from *upstream* policy advice to *downstream* transaction support—comprising a multi-billion-dollar lending, investment, and guarantee portfolio and several hundred capacity building and analytical and advisory activities (AAA).

This evaluation analyzes World Bank Group support to PPPs in a strategic context. The Bank Group's most recent strategy, *A Stronger, Connected, Solutions World Bank Group*, adopted by the Board in October 2013, features PPPs prominently; it intends to "increasingly promote public-private partnerships," given its ability to work with both public and private sector clients (World Bank 2013b). In the ongoing change management process, PPPs are also considered a specific cross-cutting solutions area. This evaluation reviews World Bank Group historic experience with PPPs with a view to distilling useful lessons for its future endeavors, as laid out in *A Stronger, Connected, Solutions World Bank Group*.

What Are PPPs?

There is no universally accepted definition of PPPs—nor has the World Bank Group adapted an explicit definition. There is a wide variety of definitions of PPPs (see Box 1.1). PPPs may refer to informal and short-term engagements of nongovernmental organizations, the private sector and/or government agencies that join forces for a shared objective; to more formal, but still short-term private sector engagements for the provision of specific services, for example, annual outsourcing arrangements for janitorial services for a school or operations of the school cafeteria; to more complex contractual arrangements, such as build, operate, transfer regimes, where the private sector takes on considerable risk and remains engaged long term; or to full privatizations.

Box 1.1. Selected PPP Definitions

International Monetary Fund – An arrangement where the private sector supplies assets and *services that traditionally have been provided by the government*. In addition to private execution and financing of public investment, PPPs have two other important characteristics: there is an emphasis on service provision, as well as investment, by the private sector; and *significant risk is transferred* from the government to the private sector.

Organization for Economic Co-operation and Development – An agreement between the government and one or more private partners (which may include operators and financiers) according to which the private partners deliver a service so the *service delivery objectives of the government are aligned* with the profit objective of the private partners and the effectiveness of the alignment depends on a *sufficient transfer of risk to the private partners*.

Canada – A cooperative venture between the public and private sector, built on the expertise of each partner that *best meets clearly defined public needs* through the *appropriate allocation or resources, risks* and rewards.

Australia – Partnerships between the public sector and the private sector for the purpose of designing, planning, financing, constructing, and/or operating projects that would traditionally be regarded as *falling within the remit of the public sector*.

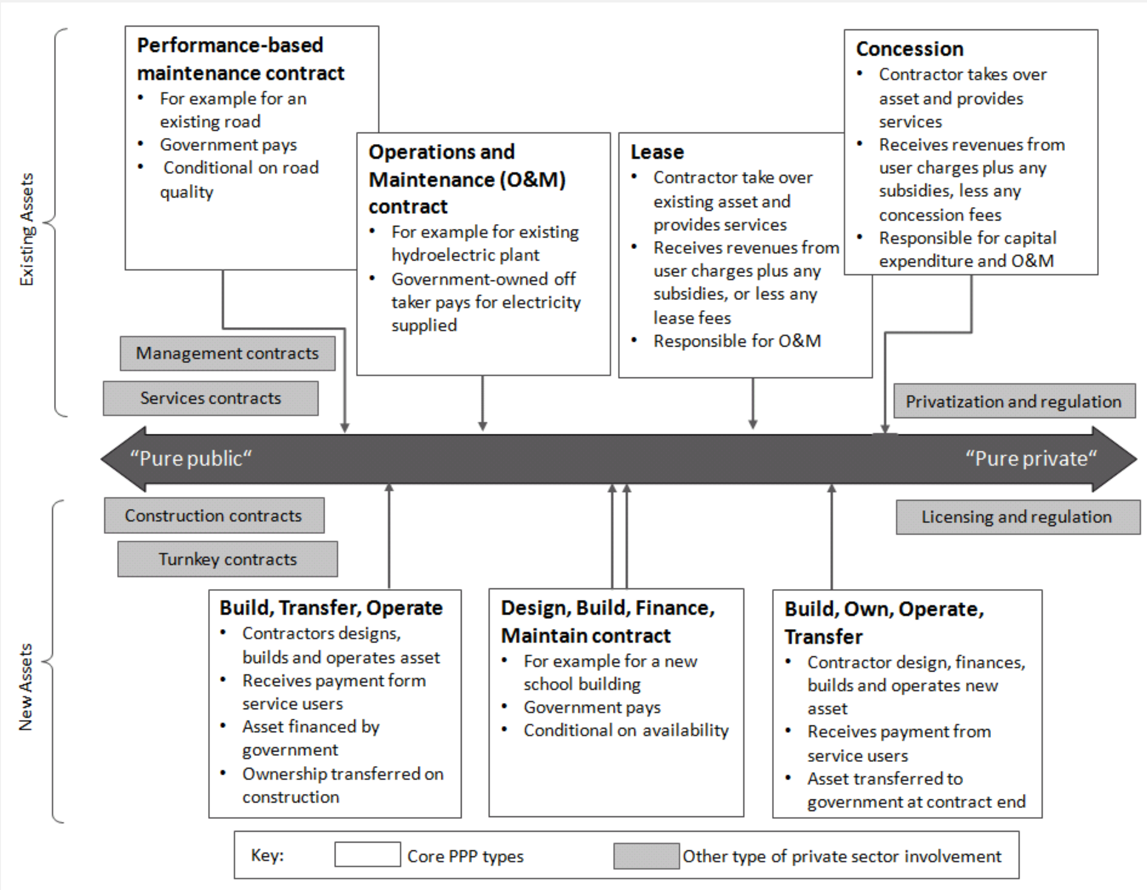
Standard and Poor's – Any medium- to long-term relationship between the public and private sectors, involving the *sharing of risks and rewards* of multisector skills, expertise, and finance to deliver desired policy outcomes.

McKinsey – Differentiates four archetypes of PPPs that all share a common vision, shared goals, investment from all partners and a formalized structure with shared decision making coordination, funding, product development, and delivery.

Sources: IMF 2004; OECD 2008; McKinsey 2009.

In this evaluation, the Independent Evaluation Group (IEG) looks at the core types of PPP arrangements that have in common a similar level of risk sharing between public and private. This evaluation adopts the definition of the World Bank Institute, according to which PPPs are "long-term contracts between a private party and a government agency, for providing a public asset or service, in which the private party bears significant risk and management responsibility" (WBI 2012, p. 36). This definition appears to be a good common denominator also across the PPP concepts of the International Monetary Fund and the Organisation for Economic Co-operation and Development (OECD) (WBI 2012; IMF 2004; OECD 2008) and translates into a well-defined spectrum of contractual arrangements. These have in common that they are long term, usually bundling design, construction, and maintenance and possibly operation, and contain performance-based elements with private capital at stake. Figure 1.1 illustrates these core types of PPP along a risk sharing dimension. Other forms of private sector involvement, located on the left side of the risk sharing spectrum—for example, short-term outsourcing arrangements without incentives or private capital at stake—would not fall under this evaluation; nor would construction (design-build) contracts for a new road. On the right side of the spectrum, fully privately owned licensed/regulated businesses would not meet this definition of core PPP arrangements either.[3]

Figure 1.1. The Spectrum of PPP Arrangements



Sources: WBI 2012; World Bank Institute and Public Private Infrastructure Advisory Facility 2012 (http://www.ppiaf.org/sites/ppiaf.org/files/documents/Note-One-PPP-Basics-and-Principles-of-a-PPP-Framework.pdf).

Conceptually, PPPs can be seen as an instrument to respond to market failures while minimizing the risk of government failure. As a general rule, private ownership is preferred where competitive market prices can be established (Ter-Minassian 2004). Under such circumstances, the private sector is driven by competition to sell goods and services at a price consumers are willing to pay and by the discipline of the capital market to make profits. However, various market failures (natural monopoly or externalities, and so forth) can justify government ownership, for example, in roads or water distribution. At times, government ownership may also be a policy choice, in particular, in the case of merit goods; these goods, for example, education, would be underconsumed as the average consumer makes decisions based on an individualistic assessment of benefits and within a short-term horizon. But governments—which deliver these services because of *market failure* or positive externalities in the first place—may subsequently struggle, as they may have difficulties operating efficiently or containing the costs, or may lack the capability to achieve a desired quality standard, or both. In other words, government failure can simply substitute—or may follow—market failure. These arguments can be used to motivate PPPs as an instrument that combines the relative strength of government and private provision in a way that responds to market failure but minimizes the risk of government failure.

Private sector actors in PPPs can use their management skills and capacity for innovation to improve efficiency and quality standards. Efficiency gains play an important role in increasing value for money through PPPs. Governments pay a fee to the private partner for the services provided (for example, in terms of usage fees and availability payments), which the private sector uses to pay operating costs and interest charges and to repay debt and return on equity.

In cases where efficiency increases offset the higher financing costs of the private sector, the PPP may have a higher value for money and hence be the preferred option for the government.[4] Such efficiency effects may include improved analysis during project selection, better planning, on-time and on-budget implementation, improved construction expertise, and adequate maintenance (WBI 2012). If implemented well, PPPs can therefore help overcome inadequate infrastructure, which constrains economic growth, particularly in developing countries. Details on the effects of PPPs from a public finance perspective are set out in Box 1.2.

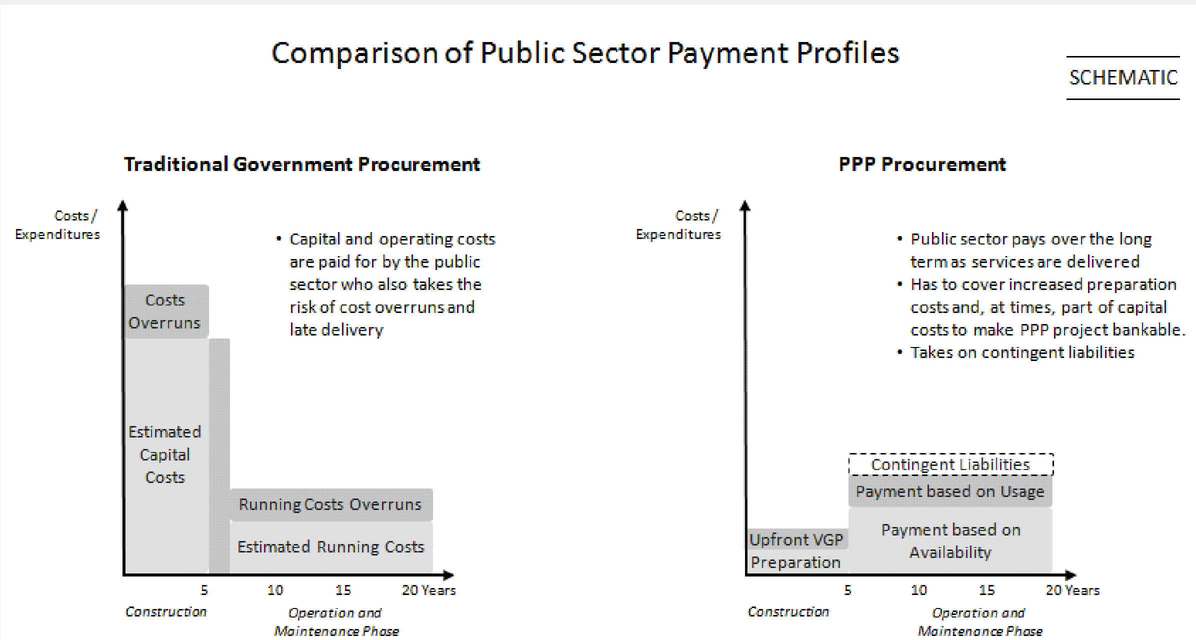
Rationale for Supporting PPPs

The rationale for the World Bank Group's support to PPPs is based on the claim that PPPs have the potential to close the infrastructure gap by leveraging scarce public funding and introducing private sector technology and innovation to provide better quality public services through improved operational efficiency. Improving the provision of infrastructure and social services through higher levels of efficiency and quality contributes directly to growth and poverty reduction. This rationale motives the World Bank Group's engagement in PPPs in its most recent infrastructure strategy update, as well as in the most recent World Bank Group strategy.[5] It also aligns well with the intervention logic of a recently conducted systematic review (Ministry of Foreign Affairs of the Netherlands 2013).

Box 1.2. The Public Sector Finance Perspective of PPPs

Contrary to intuition, PPPs generally do not provide additional resources for the public sector. Governments can finance their public infrastructure investments just as well as private firms. Only when governments are credit constrained and thus cannot borrow may private finance be superior. When governments do not have credit constraints, the primary effect of private finance in PPP arrangements is that the investment becomes more affordable within annual authority budgets and better matches user benefits, allowing governments to realize infrastructure investments earlier. PPPs mobilize private sector resources to cover the capital expenditure costs up front (or at least most of it) and make the public sector pay during delivery of the services, either through availability payments or usage payments (shadow toll) or a combination thereof (see figure below). Only if PPPs introduce fees for actual end users do they effectively increase total government revenues and funding. Hence the primary advantage PPPs may offer over traditional public procurement is potential efficiency gains that privately led construction and maintenance may bring, partly offset, however, by higher capital costs of the private investor.

The assessment of public sector liabilities triggered by a PPP project is hence of utmost importance. These can amount to substantial direct liabilities, for example, up-front viability gap funding to make projects more commercially viable and the referred usage payment, or contingent liabilities, such as guarantees on particular risk variables, for example, to buffer the traffic demand risk for the private party, compensation payments for uninsurable force majeure, or termination payments.



Sources: PricewaterhouseCoopers Advisory Services 2005; World Bank 2012b; Klein 2012.
Note: VGP = viability gap funding.

However, countries and markets need to be sufficiently mature to apply the concept of PPPs wisely. Success in PPPs is contingent on certain arrangements: (i) clear and stable market rules; (ii) sound and predictable legal and regulatory environments; and (iii) well-designed projects, including appropriate risk allocation. This implies that government authorities need to be sophisticated enough to develop sector reform policies, assess fiscal risks associated with PPPs, base their decision of public procurement versus PPP on comprehensive value for money assessments, and have impartial transaction advisory at hand to make PPP deals bankable and sustainable. In contrast, markets also need to be sufficiently liquid, that is, having enough potential investors with adequate regional experience in bidding for PPPs in an economy with available long-term capital. The World Bank Group, with its private and public sector arms, can potentially play a crucial role in "readying" countries to use PPPs and in assisting in specific PPP transactions.

The Bank Group's potentially unique value proposition to its client countries rests with the capacity to provide support along the entire PPP cycle, complemented by analytical work—often donor or grant funded—that can help countries establish their PPP frameworks and create PPP pipelines. Countries that are about to embark on their PPP agendas and are in the process of developing their PPP frameworks will appreciate such support the most. The private sector-oriented arms of the World Bank Group can play a catalyzing role in creating a PPP market by facilitating the structuring of PPP transactions or providing finance or guarantees. Supporting transactions that have a pioneering character, that is, those that are structured within yet untested PPP frameworks (in a particular sector, country, or region within a country) will have higher additionality than supporting transactions in relatively established markets.

PPPs and the Poor

PPPs need to be looked at through a "poverty lenses" as well, in view of the Bank Group's central goal of fighting poverty—reaffirmed by the 2013 strategy's dual goal of ending extreme poverty and promoting shared prosperity. The underlying rationale for PPP interventions is that PPPs can help improve infrastructure, spurring economic growth that eventually reaches the poor ("trickle down" effect). The majority of PPP interventions followed that logic, as they were positioned with the growth pillar of the country assistance strategies (Chapter 2).[6] In addition, through leveraging infrastructure investments through private sector funds, PPPs can free resources that the government would have used to fund its public investment program and can now use for other priorities. PPPs can also advance important investments and hence contribute to economic growth earlier. But the link from growth to poverty reduction is not automatic (DfID 2008). Deliberate action is often required to ensure that project outcomes and transmission channels focus on the poor. Such a proactive position is particularly important for institutions such as the World Bank Group, which aim to achieve poverty-reduction objectives.

The distribution of the benefits of PPP projects to the poor can occur through several channels. Beyond the trickle-down effect, PPPs can improve the livelihood of the poor by either (i) explicitly focusing on the poor (for example by creating jobs for the poor) or (ii) targeting the poor, based on geographic or household criteria. For example, PPPs can increase basic service coverage in poor areas. This could be a PPP specifically servicing a poor area, possibly using an innovative (alternative) approach developed by a private provider. It could also happen by having a private provider service a poor area in exchange for the right to service a wealthier area. A PPP can raise the service quality in a poor area through efficiencies of a private provider (the same money buys better services) and setting service standards. These pro-poor channels can be reflected in the project design, either as an explicit or implicit objective or project implementation may track poverty and social outcomes.

Improving access and quality for the poor needs to be balanced with affordability. The private sector requires cost recovery tariffs in general, which may have repercussion effects on tariff levels. Involving the private sector in the design, construction, operations, and/or maintenance of a service provision introduces market forces into a scheme that—in many cases—has been public before. As tariffs are in most cases the major source of the cash flow with which the private operator services its debt and equity, tariffs need to recovery at least costs.

This stands in sharp contrast to the frequently encountered "soft budget constraints" to state-owned enterprises and publicly owned utilities, where hidden subsidy schemes often squeeze the financial performance of the utility, eventually putting the entire sector in financial stress. In fact, hopes were high that PPP schemes would turn around many of these poorly performing public utilities through increased commercial orientation, tariff transparency, and cost recovery. As a consequence, tariff setting (preferably independent) needs to factor in input prices—for example, oil price developments—and pass them on to the consumer. This, however, may make services unaffordable for the poor and vulnerable, unless the cost increases are buffered by a targeted subsidy scheme.

Hence the decision as to whether to introduce PPPs (or not) is closely linked to policies that aim at protecting the poor from sudden tariff increases (see Box 1.3). Given the various ways PPPs can impact the poor, IEG therefore looked at the effect of PPPs on the poor and how far the World Bank Group has considered pro-poor aspects in the design, implementation, and monitoring of PPPs.

Box 1.3. PPPs—Tariffs and Poverty Aspects

Most poorly performing public utilities in developing countries have water tariffs that are well below cost-recovery levels, and raising them is often a necessary component of reform toward financial sustainability. In practice, the potential impact of a PPP on the tariff depends on two things: how far the initial tariff level is from the cost-recovery level and the extent of efficiency gains that can be made by the private operator—two factors that move in opposite directions and can be of very large magnitude in developing countries.

The evolution of tariff levels in a number of PPP projects was analyzed through various studies, reviewed by Marin (2009). In most cases, tariffs rose over time, but the underlying reasons for them, as well as whether those increases were justified, could not be assessed. Analyzing the impact of PPPs on tariffs can be misleading, because that impact is heavily dependent on prevailing tariff policies. Tariff increases are not necessarily a bad thing for customers when they translate into wider access to better services. In many developing countries, low water tariffs mostly benefit the connected middle class and work against the interests of the unconnected urban poor, who need to access water from often unsafe and/or more expensive sources. It is likely that many of the poor households that gained access to piped water under PPP projects ended up paying a lower price for water than when they were not connected to the network. In a few recorded cases, private operators made large enough efficiency gains to allow for significant tariff reductions in real terms after a few years.

The evidence from the literature on the impact of PPPs on tariffs is largely inconclusive. Costs are greatly affected by local factors, such as water availability, and comparing tariff levels between private and public utilities can be misleading because of differences in the legal, administrative, and financial frameworks in which the two sets of utilities operate. A 2008 study (Smith 2008) using a large sample to control for the many exogenous factors found no statistically significant difference in water tariffs between comparable public and private utilities.

Sources: Marin 2009; Gassner, Popov, and Pushak 2009; Smith 2008.

The Bank Group also plans to increase its emphasis on engagements that have potential to have a “transformational” effect, that is, to fundamentally improve the lives of poor and disadvantaged people. *Transformational projects* is a term used for engagements that may produce demonstration effects ; spillover effects on multiple sectors; results in far-reaching impacts; or help client countries, or even entire regions, shift to a higher level of development (World Bank 2013b). Many transformational projects are PPPs. These will require the Bank Group to think in longer-term horizons and take on more, but smarter risks, as these projects will require longer development and, because of their increased complexity and exposure to safeguards issues, will be inherently more risky. A separate IEG study on transformational projects is under way to advise Bank Group management on designing, structuring, and implementing transformational projects and to identify factors of success and failure.

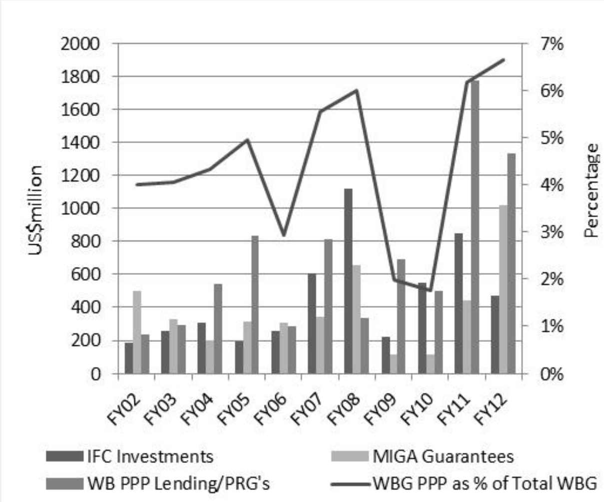
PPP Trends Globally and World Bank Group’s Engagement

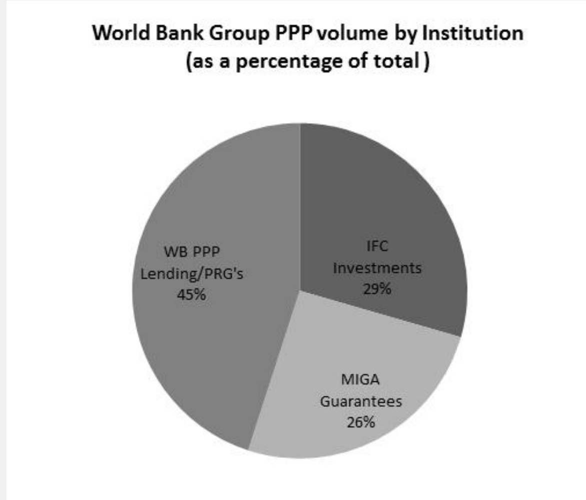
The last 10 years have seen a rise of PPPs in developing countries. Looking at the broader picture of private sector investments in developing countries, private capital has contributed between 15 and 20 percent of total investment in infrastructure during the last 10 years.[7] Looking more specifically at PPPs, after experiencing a slowdown from 1997 to 2004 as a result of the Asian financial crisis, PPPs are back on the rise in the aftermath of the 2008 global financial crisis. PPP investments peaked in 1997 at $60 billion, then accounted for only $30 billion *per year* on average during FY02–06; they subsequently increased to $79 billion *per year* on average during FY07–11. PPPs have now spread across the globe: 134 developing countries implemented new PPP projects in infrastructure alone between 2002 and 2011.[8] Although initially restricted to infrastructure, PPPs have increasingly moved into the provision of "social infrastructure," such as schools, hospitals, and health services.[9] Much of the growth of PPPs has been captured by middle-income countries (MICs) and in two regions, Latin America and the Caribbean and East Asia and Pacific.[10]

The World Bank Group has deployed a wide range of instruments and services targeting PPPs during FY02 alone 12—and in increasing numbers.[11] The International Finance Corporation (IFC) invested in 176 PPPs with total commitments of $6.2 billion; the Multilateral Investment Guarantee Agency (MIGA) supported 81 PPP projects through political risk insurance (PRI), with total $5.1 billion gross exposure; and IFC PPP Advisory Services completed 140 transactions, with total expenditure of $177 million. On the public sector side, the International Bank for Reconstruction and Development (IBRD)/International Development Association (IDA) approved 353 lending and partial risk guarantee (PRG) projects during FY02–12 with a PPP component totaling $7.6 billion.[12] Of these, 12 are PRG projects; that is complemented by 112 capacity building activities of the World Bank Institute (WBI) and 683 trust fund-supported advisory activities by the Public-Private Infrastructure Advisory Facility (PPIAF), with total expenditures amounting to $134 million.[13] During the last 10 years, World Bank Group support to PPPs has increased threefold. Lending, investments, and guarantees have risen from 2002 to 2012 both in absolute and relative terms, from $0.9 billion to $ 2.9 billion and from 4 percent to 7 percent (Figure 1.2).

In its support, IFC Investment Services and MIGA focused on MICs, whereas World Bank and IFC Advisory Services tend to support more lower-income countries (LICs).[14] IFC investments and MIGA guarantees tend to benefit mostly projects in MICs or upper-middle-income countries (UMIC), with 65 percent and 72 percent in MICs and UMICs, respectively. This reflects the flow of foreign direct investment (FDI) for PPPs, which also has been directed toward MICs in the last 10 years and indicates the demand-driven nature of IFC's investments and MIGA guarantees.

Figure 1.2. World Bank Group Lending, Investments and Guarantees Targeting PPPs—Volume and Share of Volume per Institution, FY02–12



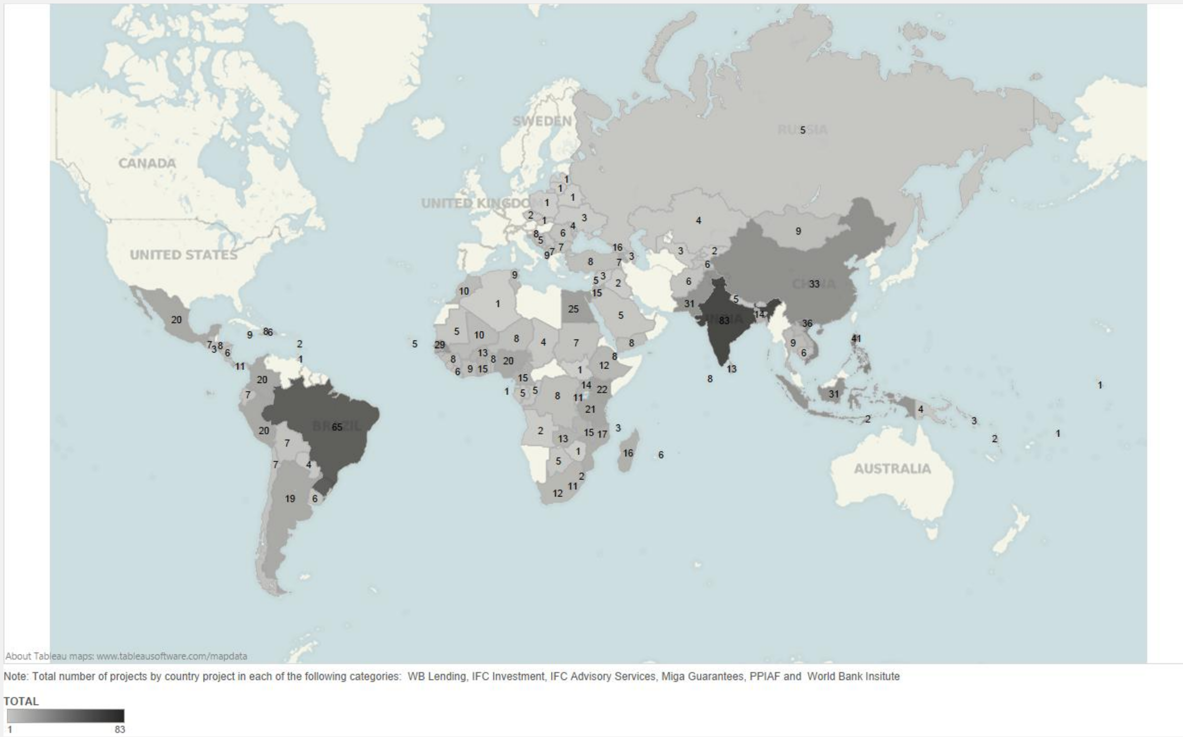


Sources: IFC MIS extract data as of June 31, 2012; MIGA database; World Bank lending data.
Note: Volume = sum of World Bank lending (commitments), IFC investments (commitments), and MIGA guarantees (gross exposure issued); World Bank = World Bank lending/PRG.

By contrast, World Bank and IFC Advisory Services target a higher share of LICs and lower-middle-income countries (LMICs), 17 and 51 percent and 19 and 48 percent, respectively. Their engagements tend to be inherently of a different risk profile, as the interaction with client countries does not foresee a "positive selection bias;" that is, that World Bank and IFC Advisory Services do not have much freedom to choose what to engage in, but are more bound to follow the country's strategic development priorities.

Globally, the World Bank Group has assisted 134 **countries** with PPP-targeted interventions, that is, with at least one intervention; 103 countries have received multiple PPP-targeted interventions. Looking at how "deep" the PPP-related interactions were between the Bank Group and its client countries reveals that particularly strong support was given to a few countries: Brazil, China, and India. Figure 1.3 depicts the distribution by total number of targeted interventions per country ("depth").

Figure 1.3. Depth of World Bank Group Support Targeted to PPPs, per Country



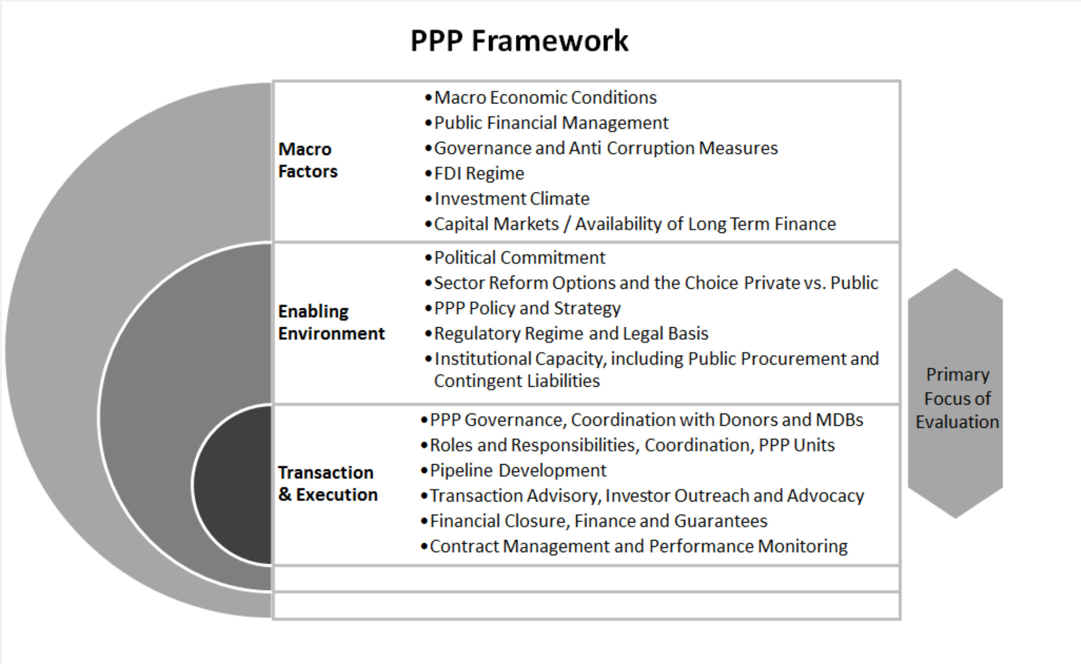
Source: IEG. *Note*: Each country received one point for each project in each of the following categories: IFC Investment, IFC Advisory Services, World Bank lending and PRG, MIGA guarantees, PPIAF, WBI.

Evaluation Design

In this evaluation IEG assesses how well the World Bank Group has supported countries in applying PPPs from 2002 to 2012. It covers all sectors and focuses on "targeted interventions," referring to activities aimed at either improving the enabling environment specifically for PPPs—as opposed to broad-based macroeconomic or investment climate interventions—and or facilitating specific PPP transactions (Figure 1.4). [15]

The evaluation covers IFC Investment and Advisory Services, MIGA guarantees, World Bank guarantees, lending and in principle also nonlending (AAA, including nonlending technical assistance, economic and sector work, and reimbursable technical assistance),[16] World Bank Group-managed trust funds with a focus on PPPs—that is, PPIAF—as well as activities of the WBI that target PPPs. For World Bank projects, this evaluation focuses primarily on projects where PPPs were the *major theme*. This was necessary, as a significant number of World Bank projects had only an ancillary PPP reference. The evaluation covers projects that were "active" during FY02–12.[17] In terms of types of PPPs, this evaluation focuses on the core PPP types defined in Figure 1.1.

Figure 1.4. PPP Framework

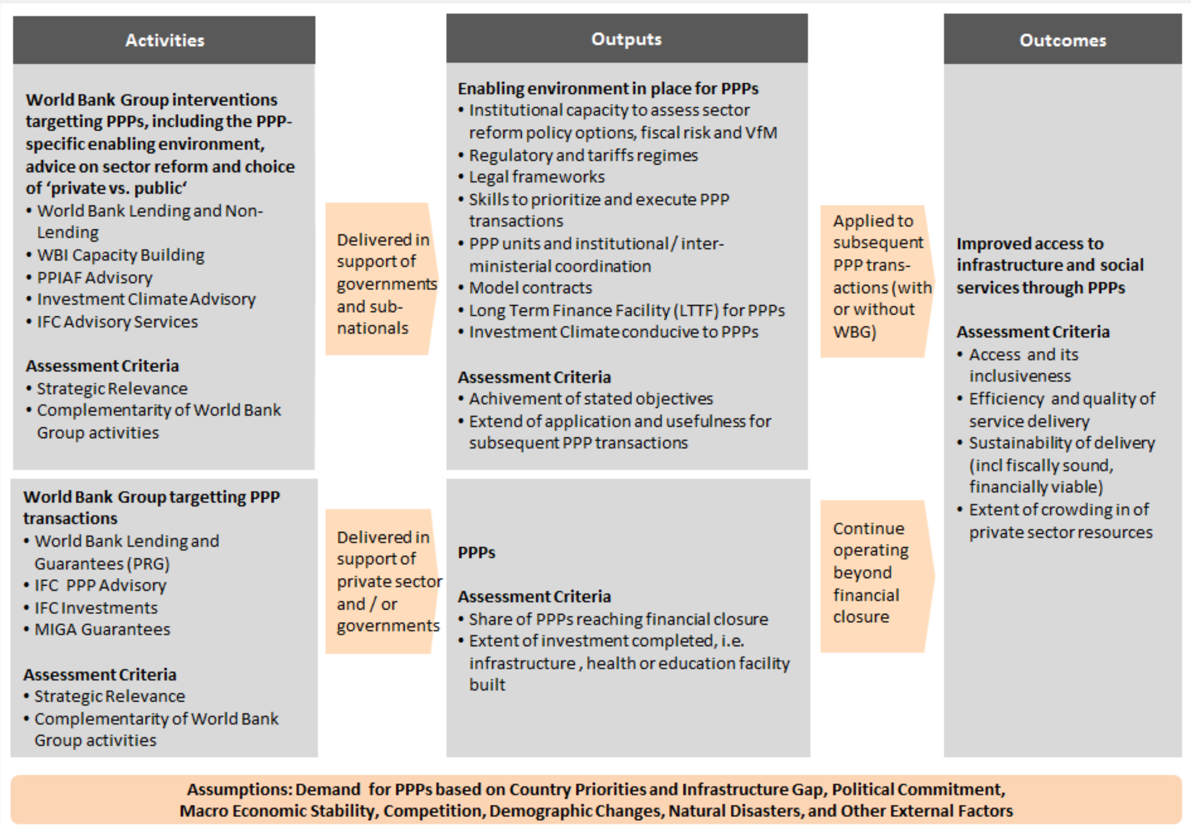


Source: IEG, based on 33 interviews with World Bank Group managers.

IEG assessed results along a specific "results chain." The World Bank Group deploys its instruments upstream, ranging from lending to non-lending technical assistance to AAA to put in place sector reforms and to improve the enabling environment, for example, regulatory and legal frameworks and institutional capacity to better plan and assess PPP options and their fiscal implications. The World Bank guarantee program (PRGs), IFC investments, and MIGA guarantees complement this effort by providing finance and political risk coverage, thus enabling specific PPP transactions to reach financial closure—potentially setting demonstration effects. Such PPPs may then contribute to improving access to infrastructure and social services, which drives economic growth and poverty reduction. Figure 1.5 summarizes this results chain.[18]

IEG evaluated evidence at all three stages of this results chain. At the activity level, this evaluation presents an assessment of the strategic relevance of World Bank Group PPP-targeted activities and their complementary nature. This assessment focuses on the country level, as the most crucial question is whether the support was relevant. IEG presents evidence for 45 client countries in which the World Bank Group has had at least five PPP targeted activities during FY02–12. At the output level, IEG assesses how far activities that aimed to create an enabling environment actually achieved that objective, for example, if regulatory regimes are functioning and fulfilling their duty. IEG also collected evidence on effects of these activities on subsequent PPP transactions. For activities that aimed at PPP transactions, this level of assessment focuses on evidence of reaching financial closure and financial leveraging. Finally, IEG presents evidence on outcomes, that is, on improved access to infrastructure and social services to PPPs.

Figure 1.5. Evaluation Results Chain



Source: IEG.

The overarching question that this evaluation seeks to answer is: "How effective has the World Bank Group been in assisting the private and public sector in client countries in improving access to infrastructure and social services through PPPs?" This overarching question will be addressed with a view to gaining an understanding how successful PPPs can be replicated in different country contexts. The supporting questions are as follows:

- *Relevance:* Has the World Bank Group's support for PPPs been relevant to client countries?

- ***Effectiveness upstream:*** Has the World Bank Group been effective in its *upstream work*, that is, in creating an enabling environment so that countries can engage in PPPs? Has the Bank Group's upstream support helped countries improve access to infrastructure and social services through subsequent PPPs, regardless of Bank Group involvement in the actual transaction?

- ***Effectiveness downstream:*** Have PPPs that benefited from World Bank Group *downstream* support in the form of IFC investments, advisory services, MIGA guarantees, and/or World Bank lending and guarantees contributed to improved access to infrastructure and social services?

- ***Working as one World Bank Group:*** To what extent do the World Bank Group's organizational structures, processes, and incentives enable a coordinated and effective delivery of PPP targeted activities?

IEG used a combination of the following methodologies**:** (i) a comprehensive portfolio review of all World Bank Group projects and activities targeting PPPs; (ii) a systematic analysis of a statistically representative sample of project-level evaluations of individual PPP projects; (iii) nine in-depth country case studies, including field missions; (iv) desk reviews of 45 countries' Country Assistance Strategy Completion Reports; and (v) a review of policy and strategy documents at country and corporation levels. The approach combines qualitative and quantitative methods and draws on the experience of other multilateral development banks (MDBs). Identification of PPP-targeted projects was carried out in close cooperation with World Bank Group management (Appendix A).

IEG's analysis focused on country-level results, in addition to covering a statistically representative sample of lending, investment, and guarantee projects. The starting point for the selection of PPP projects to be evaluated in detail was a sample of countries that had a minimum of World Bank Group–supported PPP activities. Forty-five countries were identified using a minimum threshold of at least five PPP targeting activities by any of the World Bank Group entities FY02–12.[19] The assessment of strategic relevance (Chapter 2) builds on these countries.

Relevance of PPP-targeted activities was assessed on the basis of development priorities spelled out in County Assistance/Partnership Strategies and their implementation reports. In addition, IEG collected evidence at the strategic level that may indicate the advancement of the PPP agenda at country and sector level that went beyond the individual intervention. For the portfolio analysis the sample size was further expanded to include a statistically representative sample size, at least for the major products, that is, World Bank loans, IFC investments, IFC Advisory Services, and MIGA guarantees. [20] Using this approach, of the total 1,545 PPP targeted activities, 811 were reviewed in detail. These were categorized by their main features, lending and investment volumes, objectives, and components of the activities and analyzed their development results. The portfolio analysis relied primarily on available micro evaluation data, that is, on results achievement at project closure for World Bank lending projects and at the point of operational maturity for IFC and MIGA projects.[21] Table 1.1 provides an overview of the total number of PPP interventions, classified by upstream and downstream support.

Table 1.1. World Bank Group Activities Targeting PPPs, by Number, Operationally Matured/ Exited FY02–12

	PPIAF	World Bank	World Bank	IFC AS	IFC IS	MIGA	Total
Upstream	194	33	126	10			366
Up- and downstream	14		65	20	4		100
Downstream	2		63	75	143	62	345
Total reviewed	210	33	254	105	147	62	811
Total PPP	*683*	*112*	*353*	*140*	*176*	*81*	*1,545*

Source: IEG.
Note: This may include projects approved since. 1997. AS = Advisory Services; IS = Investment Services; MIGA = Multilateral Investment Guarantee Agency; PPIAF = Public-Private Infrastructure Advisory Facility; WBI = World Bank Institute.

The study was complemented by interviews with beneficiaries, stakeholders, other donors and World Bank Group staff. The IEG team interviewed relevant Bank Group staff and management in headquarters and in each field visit. IEG gathered opinions and insights from clients, beneficiaries, and other major stakeholders in field visit countries, including other donors and MDBs, private sector investors and business associations, government counterparts, civil society organizations, think tanks and academia, and other interested parties. In addition, IEG conducted discussions and outreach to interested stakeholders through social media.

Nine country case studies identified drivers of success, assessed non-lending and advisory work, and addressed issues of complementarity and synergies. Country case studies were elected on a purposive basis[22] with the goal of generating three sets of case studies in Latin America and the Caribbean and East Asia and Pacific, the two most active regions in applying PPPs, and Sub-Saharan Africa, with one of the lowest PPP activity levels and high cancellation rates. Each set contained one country where the World Bank Group provided mainly upstream support, one country where the World Bank was active only downstream, and one country where the World Bank was active both upstream and downstream, to study the added value of continuous engagement and the effects of direct support to PPPs. This design allowed drawing lessons within and across these regions, in particular across these "horizontal" cases to yield more valid and robust lessons.[23] The list of countries reviewed and the detailed country-level assessment methodology are in Appendix C.

The study design has also limitations. The assessment did not cover developmental effects beyond improved access to infrastructure, that is, potential impacts on economic growth or poverty eradication. The extent to which PPPs deliver their services over the long term—that is, their sustainability—could only be assessed for IFC investments, where monitoring data are available beyond operational maturity, and for other PPP projects in the context of the nine country cases.

The World Bank's non-lending (economic and sector work, non-lending technical assistance, and reimbursable technical assistance) is not yet integrated in an overall results framework; hence evaluation benchmarks, that is, "objectives" against which these activities could be assessed, do not exist. IEG had to adapt a pragmatic approach for the evaluation, that is, make reasonable assumptions about what non-lending work was trying to influence. Because of limited availability of records in this area, only the major pieces were assessed in the context of the country case studies. The scant availability of project-level data on actual PPP performance also posed limitations to the statistical significance of findings, primarily for World Bank non-lending activities, IFC Advisory Services, and MIGA projects.[24]

This report is structured to allow understanding the World Bank Group-wide engagement for PPPs. Instead of presenting findings in isolated chapters per World Bank Group entity, this report follows the logic of the PPP delivery model. First, for a PPP intervention to be useful to a country, it must be relevant given the country's development priorities. Hence, this reports starts with a discussion of the relevance of Bank Group's PPP support. Typically, a minimum of an enabling environment must be available for PPPs to materialize; hence the report then assesses the World Bank Group's effectiveness in assisting countries to build up the needed environment, across all institutions engaged in the World Bank Group upstream—that is, policy reform—response.

Then actual results of PPPs and the effectiveness of World Bank Group's downstream support to actual PPP transactions are discussed in the chapter "Did PPPs Deliver?" Again, all transaction-focused operations across the Bank Group will be assessed in that chapter. The report concludes with a chapter on World Bank Group-wide coordination and management.