World Bank Group Support to Public-Private Partnerships
LESSONS FROM EXPERIENCE IN CLIENT COUNTRIES, FY02–12

Contents

ii Abbreviations

iii Acknowledgments

1 Overview

15 Management Response

20 Management Action Record

27 Chairperson’s Summary: Committee on Development Effectiveness

28 Contents of the Full Evaluation

The full evaluation is available on IEG’s website:
http://ieg.worldbankgroup.org/evaluations/world-bank-group-support-ppp

The World Bank Group | Washington, DC
## Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>IEG</td>
<td>Independent Evaluation Group</td>
</tr>
<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
</tr>
<tr>
<td>MDB</td>
<td>multilateral development bank</td>
</tr>
<tr>
<td>MIGA</td>
<td>Multilateral Investment Guarantee Agency</td>
</tr>
<tr>
<td>PPIAF</td>
<td>Public-Private Infrastructure Advisory Facility</td>
</tr>
<tr>
<td>PPP</td>
<td>public-private partnership</td>
</tr>
</tbody>
</table>
This evaluation of the World Bank Group’s Support to public-private partnerships was prepared by a team from the Independent Evaluation Group led by Stefan Apfalter. It was carried out under the direction of Marvin Taylor-Dormond (Director), Stoyan Tenev (Manager), and Andrew Stone (Head, Macro Evaluation), and the overall guidance of Caroline Heider (Director General, Evaluation).

Team members (in alphabetical order) were Iradj Alikhani, Sotero Arizu, Asita de Silva, Houqi Hong, Takatoshi Kamezawa, Victor Malca, Urvaksh Patel, Maria Elena Pinglo, Sanjivi Rajasingham, Ida Scarpino, and Aurora Siy. Crucial contributions related to risk factors came from Hiroyuki Hatashima, sector specific knowledge from Michael Latham on education and from Antonia Remenyi on health, and data analysis from Anqing Shi. The report also benefited from contributions from Kelly Andrews Johnson, Beata Lenard, and Raghavan Narayanan on IFC advisory services and investments. Additional guidance was provided by Ade Freeman. Heather Dittbrenner edited the report and Emelda Cudilla provided administrative support and formatted the report.

The peer reviewers were Gary Bond, former Manager, IFC/Infrastructure, and Director, Monitoring and Impact Assessment, European Bank for Reconstruction and Development; Raymond Bordeaux, Lead Infrastructure Specialist; and Rosario Macario, Professor at the Instituto Superior Técnico at the Lisbon Technical University.
Public-private partnerships (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. Nonetheless, most developing countries—and the World Bank Group itself in its latest strategy A Stronger, Connected Solutions World Bank Group—continue to see significant potential and need for expanded use of PPPs to help overcome inadequate infrastructure, which constrains economic growth.

Designing, structuring, and implementing PPPs remains a challenging and complex endeavor. Their success depends on the enabling environment they are embedded in. The World Bank Group has supported countries to create an enabling environment for PPPs along with structuring advice and finance. This evaluation finds that:

- The World Bank’s upstream policy reform and institution building reaches the right countries. Most of the upstream work aims at sector reform, which, however, failed in almost half of the cases because of the complexity and political implications of the reform processes. Advice on how to manage fiscal implications from PPPs is rarely given.

- The World Bank Group has made a significant contribution to capacity building for PPPs, but a lack of local skills and resources for the preparation of a PPP pipeline and bankable PPP projects poses a serious limitation across most World Bank-supported countries.

- International Finance Corporation (IFC) Advisory Services have achieved important impacts in advising on PPP structuring, despite the fact that only about half of the projects result in the award of a contract, mostly because of volatile government commitment.

- IFC also added value when investing in PPPs during due diligence and implementation, but a higher share of its PPP portfolio could be located in countries and markets with less developed PPP frameworks.

- The Multilateral Investment Guarantee Agency (MIGA) increased investors’ confidence and effectively implemented PPPs in those countries that are about to develop their PPP frameworks.

- PPPs supported by the Bank Group are largely successful in achieving their development outcomes, but data are scarce on the effects on the poor.

- The three Bank Group institutions deploy their respective comparative advantages well, but their approach should be more strategic and better tailored to countries.
To further improve the World Bank Group’s PPP ambitions as spelled out in its latest strategy, this evaluation recommends:

- Translate the World Bank Group’s strategic PPP intentions into an operational framework.
- Better assist governments in (i) making strategic decisions with regard to the level and nature of private sector participation and (ii) assessing fiscal implications.
- Identify avenues to increase IFC investments in PPPs located in countries and markets that do not yet have a well-developed enabling environment.
- Ensure broad stakeholder consultation and government commitment in IFC’s advisory work.
- Provide authoritative guidance to staff on how to handle unsolicited PPP proposals.
- Define principles for the monitoring of PPPs over the long run to capture all vital performance aspects of PPPs, including—where relevant—user aspects.
Public-Private Partnerships in Development

PPPs, if implemented well, can help overcome inadequate infrastructure that constrains economic growth, particularly in developing countries. Poor infrastructure is often a reflection of constraints that governments face, for example, lack of public funds, poor planning, or weak analysis underpinning project preparation. PPPs can help overcome these constraints by mobilizing private sector finance and helping improve project preparation, execution, and management.

The use of PPPs has increased in the last two decades. PPPs are now used in more than 134 developing countries, contributing about 15–20 percent of total infrastructure investment. During FY 07–11, investments in PPPs accounted for $79 billion annually and are now also being applied outside the traditional infrastructure sectors, including in the health and education sector.

In parallel with this development, the World Bank Group has expanded its support to PPPs through a wide range of instruments and services. During the last 10 years, Bank Group support to PPPs has increased about threefold. Lending, investments, and guarantees have risen both in absolute terms and in relative terms, from $0.9 billion to $2.9 billion and from 4 percent in 2002 to 7 percent in 2012.

More specifically, IFC invested in 176 PPPs with total commitments of $6.2 billion; MIGA supported 81 PPP projects through political risk insurance, with a total $5.1 billion gross exposure; and IFC PPP Advisory Services completed 140 transactions, with a total expenditure of $177 million. On the public sector side, the International Bank for Reconstruction and Development/International Development Association approved 353 lending and partial risk guarantee projects during FY02–12 with a PPP component totaling $7.6 billion. Of these, 12 are partial risk guarantee projects. This was complemented by 112 capacity building activities of the World Bank Institute and 683 trust fund-supported advisory activities by the Public-Private Infrastructure Advisory Facility (PPIAF), with total expenditures amounting to $134 million.

Countries need to be sufficiently mature to apply the concept of PPPs well. For example, the market structure of a sector must create conditions for the private sector to operate, regulatory bodies should be competent and protect operators from political interferences and ensure adequate tariffs, and public authorities need to have the skills to prepare a pipeline of bankable PPP projects to interest the private sector. Eventually, PPPs also need finance and, at times, protection against political risks. And because private sector operators require at least cost recovery tariffs, the introduction of PPPs may lead to end user cost increases. Hence the decision of whether to implement PPPs (or not) is closely linked to the decision to adopt policies aimed at absorbing these cost increases, at least for the poor.

The World Bank Group’s support for PPPs builds on the rationale of readying client countries for most of these aspects. Its potentially unique value proposition to its client countries rests with the capacity to provide support along the entire PPP cycle, from policy advice to transaction closure. Countries that are about to embark on their PPP agendas and that are in the process of developing their PPP frameworks will appreciate policy and sector reform advice the most. The private sector-oriented arms of the World Bank Group can catalyze a market for PPPs by facilitating the structuring of PPP transactions or providing finance or guarantees. Supporting pioneering transactions early in a country’s PPP agenda will have higher additionality than supporting transactions in relatively established markets.

In this evaluation the Independent Evaluation Group (IEG) assesses how effective the World Bank Group has been...
in supporting countries to use PPPs. The evaluation covers the last 10 years, from 2002 to 2012. For this evaluation, 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.” This definition appears to be a common denominator across the PPP concepts of the World Bank Group, International Monetary Fund, and the Organisation for Economic Co-operation and Development (WBI 2012; IMF 2004; OECD 2008) and translates into a well-defined spectrum of contractual arrangements. These arrangements 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.

According to its most recent strategy A Stronger, Connected, Solutions World Bank Group, the World Bank Group intends to intensify its PPP support. The strategy also lays the framework for many important components of a potentially effective PPP agenda, including a strong emphasis on knowledge products and collaboration across the Bank Group—a precondition to working effectively along the PPP delivery chain. This evaluation is conceived with a view to distilling lessons from the past for the implementation of this new strategy.
Strategic Relevance

PPPs are of high strategic relevance to the World Bank Group. An explicit objective of its strategy is to “increasingly promote public-private partnerships,” and PPPs are also envisaged as a Cross-Cutting Solutions Area. In addition, PPPs have been widely reflected in various sector strategies and conceptual notes. However, there is little guidance on how the World Bank Group plans to translate its strategic ambitions into country programs, working across its various entities engaged at corporate and country levels. Furnishing the envisaged PPP Cross-Cutting Solutions Area with sufficient authority that is commensurate with the planned role will be essential, as will be a clear understanding of how the solution area will interact with the Global Practices and the PPP Policy Unit.

Generally speaking, the World Bank Group’s PPP support reaches the countries that need it. In particular, the World Bank and PPIAF’s policy reform and institutional building projects target countries that are at a “nascent” stage of developing an enabling environment for PPPs or one stage further—so-called “emerging” PPP countries, per a country classification system of the Economist Intelligence Unit. Similarly, MIGA has been able to emphasize those “nascent” and “emerging” countries when issuing guarantees. IFC advisory also has a strong focus on lower-middle-income countries and Sub-Saharan Africa, regions with relatively untested PPP frameworks.

By contrast, IFC investment often reaches “developed” countries, that is, those that already have a track record of implementing PPPs and have relatively well-established frameworks in place. This is, in principle, understandable, as successful PPPs need a sound enabling environment. However, these countries are increasingly served by commercial banks. The prevalence of PPPs in the market, that is, those supported by other investors, suggests that IFC can—and should—shift parts of its PPP business into less developed countries, that is, “emerging” countries.

At the country level, World Bank Group support for PPPs was relevant to client countries inasmuch as it supported clear development priorities. Typically, the Country Partnership and Country Assistance Strategies embedded PPPs in sector reform programs. The most common PPP constraints addressed are governance issues, regulatory failure, and inadequate sector structure. Country strategies, however, tend to address other important PPP constraints less systematically, such as the capability of governments to make a strategic decision on PPPs based on value for money assessments, or to assess fiscal implications associated with PPPs; political economy factors and issues of the government’s commitment to the PPP agenda are almost entirely ignored.

Looking at country-level relevance from a “dynamic” perspective over the period evaluated (FY02–12), the World Bank Group was responsive to client countries’ needs and changing priorities.

Support to Policy Reform and Institution Building

Most of the Bank Group upstream support on policy and institutional issues was provided by the World Bank, complemented by support from PPIAF and the World Bank Institute.

World Bank upstream support was delivered through sector reform efforts. Such efforts are usually broad based and complex. They typically aim at increasing the financial viability of the sector, restructuring sector-relevant institutions, increasing sector management capacity, improving the regulatory regime, and creating a space for private sector participation. Sector reform goals were, however, the most difficult to achieve. Despite the World Bank’s leverage and country presence, success on sector
reform was only evident in 55 percent of World Bank loans—an important finding, given that proper sector reform is often a necessary condition for implementing PPPs successfully. Sector reform efforts were particularly prominent in the water and energy sectors, indicating the heavy reliance of PPPs on reform in these areas. In the same two sectors, reform efforts show the lowest success in achieving their objectives because of their complexity. The choice of lending instrument is another essential factor in advancing the PPP agenda and needs to be made contingent of the country’s readiness.

Capacity building for PPPs and building the legal and institutional framework for them were found to be the next most frequently addressed enabling factors. These relatively narrow interventions—for example, World Bank efforts to build institutions for PPPs—worked the best. Similarly, building up consensus or regulatory commissions succeeded more often than complex sector reform efforts.

Whether a dedicated “PPP unit” at the country level is needed remains to be seen; identifying a “PPP champion,” however, may facilitate interministerial coordination in any case.

Contingent liabilities for governments that emerge from PPPs are rarely fully quantified at the project level, although World Bank Group projects tend to give attention to ensuring adequate risk sharing at the project structuring stage. Efforts to systematize and introduce a framework are under way.

Strong government commitment and the availability of a government champion to promote the PPP agenda were the most important drivers of success for upstream work. Frequent stakeholder consultation and active involvement of local staff likewise contributed to the success of policy reform.

The design of PPP component(s), if and how they are embedded in a larger World Bank lending operation, and if and how related knowledge products are conceived and delivered matters. The current involvement of PPIAF suggests that engaging PPIAF further upstream in defining PPP aspects of country engagement strategies would use its resources more strategically.

On the side of the countries’ governments, a lack of skills and resources for the preparation of a PPP pipeline and bankable PPP projects is a serious limitation across all World Bank-supported countries. For subnational PPPs to be successful, capacity, regulations, and incentives need to be in place and embedded in a clear accountability system.

Did PPPs Deliver?

PPPs are largely successful in achieving their development outcomes. According to the development outcome rating of project evaluations, more than two-thirds of PPPs are successful.

The 176 IFC-supported PPPs show very high development outcome ratings, with 83 percent rated satisfactory or better. This high rate of success should not, however, lead to the conclusion that all other national or local PPPs necessarily perform well. IFC is selective with regard to where it invests; that is, it concentrates on countries that have more proven frameworks to handle PPPs. Its due diligence screens out sponsors of lower quality and mitigates project risks through smart structuring. IFC also plays an active role in supervising its investments. These success factors may not be present in cases without IFC engagement; hence PPPs are likely exposed to more potential pitfalls and risks.

To shed more light on important aspects of public service delivery—for instance, access, pro-poor aspects, and quality of service delivery—PPPs need to be measured in a more multifaceted manner. But such data are rare. The existing monitoring and evaluation systems
primarily build on a PPP’s business performance. Project-level evaluations, IFC’s Development Goals, and its Development Outcome Tracking System measure mainly the operational aspects of a PPP that are relevant to cash flow, such as the number of people that obtained access to infrastructure. Therefore, for only about half of projects are data available for one dimension. There is not a single project with data available for all the above-mentioned dimensions.

The fewest data are available on pro-poor and fiscal effects; access has the most data available. 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—and in light of the intent to increasingly pursue PPPs, there is an urgent need to introduce a more systematic way of monitoring PPPs. Such a system should not only better capture the end-user aspects of PPPs, but should also monitor PPP performance beyond the early years of operational maturity. Existing systems, such as the IFC Development Goals or the Development Outcome Tracking System, would have to be strengthened and an IFC advisory post-implementation monitoring system fully rolled out—and possibly expanded to the World Bank—to better assess the breadth of PPP effects.

Improving access was generally achieved. When data were available, financial, efficiency, and quality improvements could be confirmed for the majority of Much PPP transport investment has focused on enhancing roads for automobile traffic, improving traffic congestion such as this in Beijing, China.
cases, but data on efficiency and quality were scarce. A statistically nonrepresentative but in-depth assessment of 22 PPPs conducted as part of IEG’s 9 country case studies indicates good results along all dimensions, except for efficiency, where results were mixed.

It cannot, however, be assessed how far PPPs benefited the poor, as large data gaps exist. Confirmation that access did improve for the poor was recorded in only about 10 percent of cases. Beyond reaching the poor through improved access to infrastructure, a review of broader benefits showed that such effects—for example, employment effects—occurred in 42 percent of World Bank PPPs, in 39 percent of IFC investments, and in 20 percent of MIGA’s guarantees.

Country readiness drives PPP success. Development outcome ratings of PPP projects tend to be better in countries with a higher level of readiness in handling PPPs, that is, those countries with better established frameworks for preparing and approving PPPs and a longer track record of executing actual transactions. As a general rule, the presence of a strong regulatory framework was necessary for projects to succeed in the water and power sectors; in the transport sector (ports, airports, and roads) project-level parameters on pricing and oversight, along with the legal framework governing PPPs, seemed adequate. In addition to country maturity, PPPs need a sound business case and a competent sponsor to be successful.

Cross-sector approaches as envisaged by the World Bank Group 2013 strategy appear an appealing solution for supporting countries in improving their “PPP maturity,” for example, through upstream policy support and downstream transaction finance. But given the high importance of progress in the individual sector, such cross-sectoral approaches need to be well synchronized with and built on sector reform efforts.

IFC investment added value to PPPs during due diligence and implementation, in addition to providing finance and catalyzing other financiers. IFC-supported PPPs tend to be less risky than other infrastructure investments, because of the thorough due diligence. This thoroughness is also reflected in the high work quality ratings for IFC investments in PPPs. As a consequence, IFC-supported PPPs exhibit consistently higher development outcome ratings than other infrastructure investments—and significantly higher ratings than the rest of the portfolio. Risk is also adequately priced into IFC’s PPP deals—resulting in an even higher-than-average business success and investment outcome. IFC-supported PPPs are often located in countries with already well-established enabling environments, and less in emerging or nascent countries. Supporting more PPPs in emerging countries will not decrease their success rate: in fact, 86 and 88 percent of PPPs are successful in developed and emerging PPP countries, respectively. Even increasing IFC’s—currently very small—investment portfolio in nascent countries is likely to maintain the overall high success rate (83 percent satisfactory) at a still very reasonable level.

IFC could afford taking more “smart risk,” as envisaged by the 2013 Bank Group strategy. This could help support more PPPs in countries that need IFC’s support the most, that is, those that are building up their PPP frameworks and have a limited track record of implementing PPPs. Such investments would set an important demonstration effect and show that private participation is possible even in less tested regulatory regimes—increasing IFC additionality and developmental footprint.

The focus of IFC Advisory Services is to bring PPP transactions to commercial and financial closure. Although almost all transaction cases reviewed (97 percent) delivered the specific advice for the first phase of the process (up to the decision to open a bidding process), about half resulted in an award of a contract, a
prerequisite for creating a successful PPP. Among projects that led to contract closure, the largest success factors are government commitment and IFC’s role.

IFC advisory’s value added is also demonstrated by its ability to adjust and balance government objectives with the needs of a bankable transaction, which would interest the private sector. Lacking somewhat the long-term and close relations, in-depth policy dialogue, and financial leverage that the World Bank would normally have with governments may also explain why only half of its projects reach contract closure; so can the fact that IFC advisory operates a lot in lower-middle-income countries and Sub-Saharan Africa, where one could expect relatively untested PPP frameworks. IFC advisory’s experience in these countries could therefore inform IFC investments on the country’s and market’s readiness and help leading their investment more into emerging—and even nascent—countries. More upfront work should be undertaken, including more proactive dialogue with civil society stakeholders. A Bank Group-wide systematic country diagnostic for PPPs may be helpful in determining the entry point of such upfront work.

IFC’s advisory services on PPP focused on introducing innovative models for private sector participation in Brazil. The Hospital do Subúrbio in Bahia—Brazil’s first hospital completed under a PPP model—is one example.
MIGA guarantees helped effectively increase investors’ confidence and improve their capacity to raise capital, lower their financing costs, and mediate disputes with governments. MIGA’s effectiveness and underwriting quality for PPP projects is on a par with the quality of underwriting of other MIGA projects. Similar to all World Bank Group PPP transactions, regulatory failure and political economy factors were drivers of success and failure. MIGA’s political risk insurance offered cover for specific risks and was effective in helping establishing a track record of PPPs in countries that need support the most, that is, those that are in the process of building up their PPP frameworks. MIGA-supported PPPs have been more strategically relevant than MIGA’s other infrastructure projects, corroborating their important role in nascent and emerging PPP countries. Strengthening MIGA’s role in World Bank Group-wide efforts and benefiting from its role appears to be the way forward when bringing PPPs to more nascent and emerging countries.

Sixty-two percent of World Bank–supported PPP downstream transactions were successful. This means that, measured by their overall development outcomes, PPPs are quite successful—but significantly less successful than IFC’s investments. But the World Bank takes on significantly more country risk. Countries in which the World Bank engages tend to have worse Institutional Investor Country Credit Ratings — and a higher share of
shape the regulatory environment, often facilitated by close Bank Group-wide collaboration and stakeholder involvement.

**Working as One World Bank Group**

The World Bank Group’s support to PPPs addresses issues along the entire delivery chain, from upstream support for the enabling environment and pipeline development to downstream transactions and execution. It touches on about 20 different entities of the World Bank Group. Collaboration across these entities is crucial for proper sequencing and leveraging of the relative comparative advantage each institution holds.

Leveraging the comparative advantages of the various World Bank Group institutions works quite well. In about half of the countries IEG reviewed, the World Bank Group institutions effectively coordinate and collaborate across policy reform aspects and PPP transactions; in a few cases all three institutions were involved. There is also evidence for proper sequencing of instruments across upstream and downstream support. Among its peer organizations, the World Bank Group has been acknowledged as offering the most comprehensive PPP solution package. However, there were also a few missed opportunities.

Going forward, working as “one World Bank Group” will become central. The Bank Group’s intention to explore mechanisms to promote a stronger pipeline of joint infrastructure projects and the envisaged review of World Bank Group advisory services to governments are essential for the PPP agenda. But most importantly, incentives must be in place for individual task managers and investment officers to collaborate. They only collaborate if such collaboration adds value and allows them to achieve better results or at least the same results faster. Introducing metrics to measure collaborative behavior, as suggested by the latest Bank Group strategy, is likely perceived as artificially
imposed and will not necessarily increase collaboration. Aligning practice areas through a “delivery lens” and integrating currently separate units may be more effective.

Improving the focus of country programs through a systematic country diagnostic will be particularly important for the PPP agenda. As any diagnostic is resource intensive, it should be applied mainly to countries in which at least a minimum prospect exists that a bankable pipeline of projects will emerge. A PPP country diagnostic would have to consider country, sector, and project parameters as part of a phased approach and could represent a platform for sharing knowledge as well as clarify Bank Group-wide collaboration. Advocacy and stakeholder consultation have thus far received too little attention and should therefore be emphasized. Such a diagnostic would help (i) ensure that the Bank Group institutions leverage their respective comparative advantages, (ii) tailor upstream support to country level constraints, and (iii) determine who should take the lead in advancing the country’s PPP agenda.

A concerted one World Bank Group approach is needed to close the upstream deal gap—one of the major challenges for the future. Lack of funding and capacity causes a gap of bankable PPP projects across client countries. To close this upstream deal gap, a dedicated PPP pipeline and project development facility is needed that works in close collaboration with all World Bank Group institutions.

Working as one World Bank Group also requires watching out for conflicts of interest. Going forward, as the change management process develops concepts for organizational adjustments, management is well advised to give high priority to this issue to ensure that changes to processes and organizational structures enable an effective and efficient management of the risks from potential conflicts of interest. Finally, given their importance, there is a need for a Bank Group-wide policy on how to best handle unsolicited bids. Unsolicited proposals often play a role in countries with an upstream deal gap. To benefit from the upside of unsolicited proposals—that is, funding of project preparation and innovation—countries need to have a framework in place to deal with them. Guidance to Bank Group staff engaged in both upstream and downstream work will be crucial going forward.

Experience of Other Multilateral Development Banks with PPPs

For most multilateral development banks (MDBs) PPPs are of great relevance, and several feature PPPs explicitly either in stand-alone strategy documents or as an integral part of sectoral/corporate strategies. In implementing these strategic plans, some MDBs have come up with specific roadmaps and matrix management structures. In particular, the Asian Development Bank undertook an evaluation of PPPs that has triggered a rethinking of the institution’s approach to PPPs and has moved to make the process more strategic and less opportunistic. Its operational plan for PPPs turns strategy into implementation more readily. The four pillars of its operational plan also help define the PPP instruments that it will offer. Similarly, the African Development Bank set up an operational framework for PPPs in conjunction with its private sector development strategy, where PPPs figure prominently.

Across the MDBs, three (the Asian Development Bank, the African Development Bank, and the Inter-American Development Bank) have PPP approaches that recognize the importance of upstream as well as downstream support. Compared to its peers, the World Bank Group likely offers the widest and deepest set of services and products, a conclusion corroborated by IEG’s nine country missions.
Recommendations

IEG’s recommendations are intended to strengthen the implementation of the PPP-relevant aspects of the latest Bank Group strategy. They seek to ensure that PPP interventions have the maximum value for client countries and private sector partners, to make the PPP agenda of the Bank Group build on better country diagnostics and pursued in a more strategic manner, and to leverage the comparative advantages of all Bank Group institutions and trust funds involved in the PPP response. The recommendations are clustered into two groups: (i) strategic and organizational and (ii) operational recommendations.

STRATEGIC AND ORGANIZATIONAL RECOMMENDATIONS

► Recommendation 1: IFC investment services should identify avenues that would allow IFC to invest increasingly in PPPs located in countries and markets that do not yet have a well-developed enabling environment, while keeping its mandate of achieving high development outcomes and remaining financially self-sustaining.

► Recommendation 2: IFC PPP Advisory Services should rethink its client engagement management with a view to ensuring broad stakeholder consultation up front and maintaining or even improving government commitment to PPP transactions, in collaboration with relevant World Bank Group staff.

With power plants such as this one in Kabul, Afghanistan, innovations gained through PPPs can be implemented to supply improved and more reliable electricity—or other public utility services—to cities.
OPERATIONAL RECOMMENDATIONS

► Recommendation 3: Once the new PPP Cross-Cutting Solution Area has been established, it should translate the World Bank Group’s strategic intentions with regard to PPPs into an operational framework, covering aspects of organization and processes, resources, knowledge management, and monitoring and evaluation. This framework should (i) define the role of the PPP Cross-Cutting Solution Area and its interactions with other relevant Bank Group stakeholders, (ii) facilitate the identification of country-tailored solutions based on country diagnostics, and (iii) foresee a Bank Group-wide PPP knowledge management platform.

► Recommendation 4: The World Bank Group should systematically integrate efforts to assist governments in (i) making strategic decisions with regard to the level and nature of private sector participation in infrastructure and social service provision and (ii) assessing fiscal implications, including any fiscal liabilities associated with PPPs.

► Recommendation 5: The World Bank Group should provide authoritative guidance to its staff on how to handle unsolicited PPP proposals, both in its upstream and downstream work. Given the importance of unsolicited bids, in particular in countries with an upstream deal gap, there is a need for a Bank Group-wide policy on how to handle them best, so that countries can benefit from the upside of unsolicited proposals—that is, funding of project preparation and innovation—while at the same time safeguarding public interests and integrity.

► Recommendation 6: The World Bank Group should define principles for the monitoring of PPPs over the long run, that is, beyond operational maturity (IFC/MIGA) and projects closure (World Bank), to capture all vital performance aspects of PPPs, including—where relevant—user aspects.

References


Management Response

Introduction

The World Bank Group commends the Independent Evaluation Group’s (IEG) evaluation of the Group’s support to public-private partnerships (PPP). The timing of this evaluation is pertinent, given that PPPs have been identified as a Cross-Cutting Solution Area (CCSA) that will be developed under the revised structure of the World Bank Group. Understanding how the World Bank Group can prepare governments to deliver PPPs, advise governments on specific transactions, and improve internal coordination will be central to realizing the mandate for the CCSA and stepping up the leveraging of private sector skills, technologies, and resources in basic service delivery.

Under its new strategy, the World Bank Group intends to work with the public and private sectors to end extreme poverty and promote shared prosperity and seeks to increase synergies across the Bank Group. Client countries are increasingly interested in PPP arrangements to provide badly needed public services, and PPPs are, by their nature, a prime area for close World Bank Group collaboration.

Overall, management concurs with the findings and conclusions in the report. Management believes that IEG has presented a balanced account of World Bank Group support to its client countries during the period of FY02–12. Management is in general agreement with the report’s recommendations. The attached Management Action Record presents management’s response to individual recommendations.

World Bank Group Comments

Importance of PPP for development and strategic relevance for the World Bank Group. Management agrees with IEG’s statement that PPPs, if implemented well, can help overcome inadequate infrastructure that constrains economic growth. The World Bank Group is uniquely positioned to help overcome these constraints by mobilizing private sector participation, helping improve the enabling environment for investment, and strengthening project preparation, execution, and management. As the report recognizes, Bank Group support to PPPs addresses issues along the entire delivery chain, from upstream support for the enabling environment and pipeline development to downstream transactions and execution.

Alignment with country needs. The report concludes that the World Bank Group’s deployment of its PPP interventions is well synchronized with client country needs and that, over the period evaluated (FY02–12), the World Bank Group was responsive to client countries’ needs and changing priorities. The report articulates well the unique and complementary roles of the World Bank Group entities in the PPP delivery chain and captures their specific contributions. World Bank Group institutions each play distinct and complementary roles when they support upstream and downstream work in client countries. In particular, the report shows that the International Finance Corporation (IFC)—and the Multilateral Investment Guarantee Agency (MIGA)—supported projects do not happen in a policy vacuum, but in response to deliberate policy reforms. The analysis also confirms that coordination across the World Bank Group institutions is critical for maximizing the development effectiveness of Bank Group operations in the sector.
World Bank Group coordination. Management is encouraged by IEG’s conclusion that leveraging the comparative advantages of the various Bank Group institutions works quite well with adequate sequencing of instruments across upstream and downstream support. In addition, IEG finds that among the World Bank Group’s peer organizations, the Bank Group has been acknowledged as offering the most comprehensive PPP solution package. While the Bank Group’s efforts have been well targeted to client needs, management appreciates IEG’s recommendation that the World Bank Group support to PPPs could be more strategic and better coordinated. The ongoing reorganization of the Bank Group includes the creation of a CCSA for PPPs. This unit will create an institutional locus for the PPP agenda within the Bank Group, as well as for the sectoral and infrastructure economics and advisory work that underpins the solutions the World Bank Group delivers to client countries. The PPP CCSA is a bold initiative that is expected to deliver the strategic and operational direction called for by the report.

Potential conflicts of interest are managed appropriately through current business practices. The discussion on the potential of conflicts of interest among the various World Bank Group institutions concludes that the existing mechanism to manage the “actual, potential and/or perceived” conflict of interest is functioning well. As the reorganization of the World Bank Group moves ahead, management will continue to manage this process transparently in order to ensure that the interests of both its public and private sector clients are balanced and drive the work program, rather than any actual, or perceived, institutional interests.

Monitoring PPPs’ impact on various dimensions of public service delivery. Management concurs with IEG’s finding that the World Bank Group can further improve its monitoring of PPPs. In particular, management agrees that a “multifaceted” approach to identifying and monitoring the effects of PPPs on end users is required and that the various monitoring systems within the Bank Group should be harmonized to the extent that there is interoperability in PPP data. The World Bank Group needs to move past the current state of “data scarcity” on the effects of PPPs on the poor in order to fully appreciate the effect PPPs play in realizing the World Bank Group’s twin goals of reducing extreme poverty and boosting shared prosperity in a sustainable manner.

Overcoming the “upstream deal gap.” IEG’s report describes the specific constraints in client countries that create an “upstream deal gap” (that is, an insufficient number of bankable PPP projects). This represents a bottleneck for PPPs, as countries across the income distribution are constrained by weak capacity for project preparation and/or financing gaps. As part of a concerted response to this challenge, management is exploring, together with the World Bank Group’s clients and partners, the possibility of developing a Global Infrastructure Facility, a new project preparation and financing vehicle to increase the Bank Group’s ability to support its client countries’ PPP ambitions in infrastructure.

World Bank–Specific Comments

Upstream work through sector reforms should be analyzed as a composite of several interventions, rather than as an independent variable in its own right. Management agrees that there is significant room for improving the effectiveness of World Bank upstream support to client countries’ PPPs delivered through sector reform operations. However, while IEG correctly notes that several World Bank Group upstream objectives are pursued within broader sector reforms, IEG does not disaggregate the particular success rate for each of these dimensions when it compares sector reforms to more narrowly defined PPP upstream interventions.
In this context, IEG’s figure of “55 percent success rate for sector reforms” can be misleading. IEG missed an opportunity to delve deeper into the challenges faced by the World Bank’s sector reform efforts. Consequently, it may overstate the evaluation’s findings by claiming that the Bank’s sector reform work “failed in almost half of the cases” when it comes to PPP upstream objectives.

**Overcoming constraints to pipeline identification and project preparation.** Bank management concurs with IEG’s finding in relation to the “upstream deal gap.” The World Bank has become one of the leading voices within global fora working to familiarize clients and donor countries with the sector policies, project structures, and institutional arrangements required to attract private finance to public infrastructure investments. Moreover, through its operations, management strives to bring development solutions that allow decision makers to prioritize investments in a fiscally informed and prudent manner. For instance, a recent Reimbursable Advisory Service agreement with the government of Vietnam will develop a tool that will allow the Ministry of Planning and Investment to prioritize a pipeline of infrastructure investments, including public and PPP projects.

**Concerted effort to consider fiscal impacts of PPPs.** The IEG report advises the World Bank Group to systematically assist governments to assess the fiscal implications of PPPs, including current or contingent liabilities associated with PPPs. Management concurs that government transfers, guarantees, backstopping, concessional finance, and future obligations should be viewed in concert with the projected effect the instrument or mechanism will have on the government’s fiscal situation, either today or in the future.

**Unsolicited bids are covered within many guidance notes and toolkits, but management recognizes the need to systematize guidance to staff.** As the evaluation rightly mentions, unsolicited bids frequently occur within countries that require additional technical support to fully vet such bids. The World Bank has developed a number of Guidance Notes and toolkits on the subject, directed to internal and external audiences. Management agrees that the existing knowledge could be codified into an “authoritative” literature set that World Bank Group staff can refer to. However, a one-size-fits-all approach is not recommended in the face of the highly segmented client base of the World Bank Group. Management will actively advise governments to ensure that unsolicited bids are within the strategic, fiduciary, and fiscal priorities of the state, but with a degree of flexibility to treat each client engagement with unsolicited bids on the merits.

**IEG’s definition of PPPs excludes the types of risk-sharing mechanism most commonly used within fragile and conflict-affected states.** Management recognizes fragile and conflict-affected states (FCS) as an urgent development priority and following the publication of the World Development Report 2011 has further increased PPPs emphasis on FCS. However, IEG’s definition of PPPs does not consider lease, management contracts, or hybrid schemes, which are generally the mechanisms used to introduce private sector participation into FCS. Management appreciates the argument presented by IEG that these mechanisms do not induce the level of risk sharing common to the other PPPs analyzed within this evaluation. Nonetheless, FCS are critical clients for the Bank, and by excluding the mechanisms mentioned previously, IEG has excluded many of the Bank’s innovative attempts to improve access to basic services to some of the world’s poorest citizens with private sector participation.
International Finance Corporation–Specific Comments

Management welcomes IEG’s evaluation of the World Bank Group’s support for PPPs. The report provides a valuable assessment of IFC’s development results in a key intervention area for both Investment Services and Advisory Services. Support for PPPs will remain an important IFC contribution to a “Solutions World Bank Group” to improve the sustainability of private sector engagement in service delivery, particularly in infrastructure, health, and education.

Management welcomes the report’s recognition of the strong additionality and development impact of IFC interventions in PPPs. In Advisory Services, IFC successfully balances the public good objectives of the government and the needs of the private sector for a bankable transaction. The report correctly recognizes the political and economic risks that are often the main obstacle to contract closure. The nine case studies illustrate well the innovative nature of many of the Advisory Services PPP projects, which help explain successful award of contract.

In Investment Services, the report underscores the consistently higher development outcome success rate of PPP investments relative to both other infrastructure investments and the rest of the portfolio. IFC achieved these impressive results through solid screening, appraisal, and structuring. Selectivity played a key role. This led to IFC supporting projects in environments that are reasonably ready for PPP investments, where it has a strong additionality, where expected development results are significant, and where financial sustainability risk is acceptable.

IFC agrees with the assessment that demonstration and replication effects may be as important as the actual transaction. In fact, IFC has already conducted two separate studies on IFC demonstration effects in the past two years: one of them focuses specifically on PPPs in Africa, while the other has a broader scope for all IFC projects.

IFC recognizes that sufficient and reliable public services, including infrastructure, are intrinsic to sustainable economic growth and poverty reduction. In order to better leverage private sector resources and expertise in developing infrastructure and public services, IFC emphasizes a programmatic approach to PPP engagements and focuses both on the core transaction advisory services for governments as well as on pipeline generation and upstream support for clients. IFC partners across the World Bank Group, including through the new PPP CCSA, will identify and address skill gaps and build capacity of implementing agencies. To improve its own operations, IFC will continue to proactively leverage expertise within the World Bank Group through joint activities at the country level, for instance, through World Bank Group Systematic Country Diagnostics, Country Partnership Frameworks, and Joint Implementation Plans. Additionally, at the project level, it will work through joint business development and appraisals.

Multilateral Investment Guarantee Agency–Specific Comments

Overall, MIGA finds the evaluation useful and important. This report has made a serious effort to analyze and understand MIGA contributions to PPPs, despite the limited sample of projects with completed Project Evaluation Reports validated by IEG. MIGA hopes that the approach adopted by IEG in the PPP evaluation will serve as a good example for other IEG evaluation reports.

MIGA’s role in World Bank Group support for PPPs. The report makes the case for strengthening MIGA’s role in Bank Group-wide efforts in PPPs, as well as
benefitting from its role in bringing PPPs to more nascent and emerging markets, in terms of PPP readiness. MIGA agrees with this assessment and notes that the suggestion bodes well in the context of the increased emphasis on “One World Bank Group” as an integrated solutions provider for client countries.

Focus of MIGA-supported PPPs on middle-income countries. The report states that MIGA Guarantee Operations were focused on middle-income countries. The report also states that this pattern reflects the flow of foreign direct investment for PPPs, which have been focused on middle-income countries in the past 10 years and indicates the demand-driven nature of MIGA operations. MIGA notes from the analysis in the report that juxtaposes country income levels and PPP readiness that PPPs are concentrated in middle-income countries. Further, most of the PPPs located in nascent and emerging markets also turn out to be in middle-income countries (only a small percentage of PPPs located in nascent and emerging markets belongs to low-income countries). MIGA notes that its PPP focus on middle-income countries was indeed driven by the flow of foreign direct investment for PPPs but also other factors such as selectivity, risk return, and client demand. MIGA also notes that MIGA has been collaborating with the rest of the Bank Group to expand PPPs to low-income countries and fragile countries, especially in Sub-Saharan Africa.

Broader assessment of PPPs. The report states the need for assessing PPP results beyond development outcome success rates by seeking more information on the quality and efficiency of public service delivery, effects on the poor, and fiscal sustainability, among other areas. MIGA agrees with this assessment and notes these are important aspects in assessing the results of PPPs. However, some of the information is already captured in the project-level evaluations. MIGA also finds the discussion in the report outlining the key components of a monitoring and evaluation system for PPPs as useful, but notes that it may be better to integrate these components into existing results frameworks, rather than formulate a new one for PPPs.

Country risks and MIGA-supported PPPs. The report states that MIGA’s political risk insurance did not necessarily allow PPPs to get structured in higher-risk environments, with MIGA-supported PPPs located in countries with Institutional Investor Country Credit Risk rating scores of 35–50 (that is, medium and low risk). MIGA notes that this finding is consistent with the fact that PPPs are mostly concentrated in middle-income countries, as previously discussed, with most of the MIGA-supported projects located in nascent and emerging markets from a PPP-readiness standpoint. MIGA also notes its recent efforts to support PPPs in more high-risk countries and low-income countries, especially in Sub-Saharan Africa, as part of the broader World Bank Group efforts.

Demonstration and replication effects. The report states that at times demonstration and replication effects may be as important as the actual transaction. MIGA agrees with this assessment and notes that demonstration and replication effects are fundamental to the private sector development process that has been well documented in previous IEG reports (Results and Performance 2010), as part of the effort to understand better the “how” of the private sector development process. MIGA also notes the several examples from the report regarding the demonstration and replication effects of MIGA-supported projects that contributed to significant development impacts.
Management Action Record

IFC’s PPP investment focus: established or less developed environments

| IEG Findings and Conclusions | Support to PPP transaction through IFC’s investments emphasizes countries with already quite well-established PPP frameworks, that is, those rated “developed” by the Economist Intelligence Unit (EIU) global ranking. Five percent of IFC investment business is located in nascent countries, where arguably the deal flow can be expected to be less reliable. However, this is about half of what the market generates, with 9 percent of all PPPs occurring in these countries. In “emerging” countries, about 38 percent of IFC investments take place, whereas 49 percent of all PPPs are structured there. Hence, IFC’s investment activity clearly lags behind the rate at which the market itself generates PPPs. By contrast, IFC invests more in developed PPP countries than the market does: Fully 56 percent of IFC’s investments are directed to developed countries—compared to 42 percent of all PPPs being structured there. In addition, IFC-supported PPPs tend to be less risky than other infrastructure investments, because of the thorough due diligence. This thoroughness is also reflected in the high work quality ratings for IFC investments in PPPs. As a consequence, IFC-supported PPPs exhibit consistently higher development outcome ratings than other infrastructure investments—and significantly higher ratings than the rest of the portfolio. Risk is also adequately priced into IFC’s PPP deals—resulting in an even higher-than-average business success and investment outcome.

Supporting more PPPs in emerging countries need not decrease their success rate: in fact, 86 percent of PPPs are successful in developed countries and 88 percent in emerging PPP countries, respectively. Even nascent countries exhibit a success rate of 50 percent.

Note: The EIU rating scheme captures 83 percent of IFC investments and hence is representative of IFC’s investment portfolio in PPPs. Looking at the 17 percent of IFC investments that are not covered by the EIU ratings, full 90 percent of these are concentrated in only 10 countries. |

| IEG Recommendation | IFC Investment Services should identify avenues that would allow IFC to invest increasingly in PPPs located in countries and markets that do not yet have a well-developed enabling environment, while keeping its mandate of achieving high development outcomes and remaining financially self-sustaining. |

<p>| Acceptance by Management | IFC agrees |</p>
<table>
<thead>
<tr>
<th>Management Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFC plays a convening role in Investment Services, helping bring together different players to support a project developed by the sponsor. In the majority of investment projects that IFC supports, it comes in after the sponsor has already chosen the location and prepared a project. The demand-driven and demand-contingent offering is difficult to execute in less developed (from a PPP perspective) markets. With the exception of a few cases where IFC can influence project development, it will continue to be a financier of already developed project proposals and one cannot realistically expect too much of a move toward the PPP frontier. However, there are recent efforts in this direction such as an increased focus on FCS countries. The report is also sanguine about the ability of IFC Investment Services to continue achieving high development outcomes in more risky environments. IFC has to proceed with caution, given that it is possible that the high overall development outcome success rate in Investment Services may not be sustained as it grows its PPP Investment Services portfolio in difficult countries.</td>
</tr>
</tbody>
</table>
## Stakeholder engagement and commitment

| IEG Findings and Conclusions | Although almost all IFC advisory services for PPPs transaction cases (97 percent) delivered specific advice for phase 1, about half resulted in an award of a contract. Among projects that failed to reach contract closure, the top drivers of failure were political and economic risk factors and lack of government commitment. Collectively, the two factors contributed to the failure in 75 percent of these projects. Of projects where government capacity was weak, over half reached contract closure, which indicates that IFC advisory can step in with its capacity to handle the process. An important lesson is that more upfront work should be undertaken to better assess client commitment and to determine the areas of potential support and opposition to a project within the client government. Such work could occur before signing the Financial Advisory Services Agreement. For projects that involve commitments from multiple stakeholders, IFC should engage in a pre-mandate assignment to identify and map stakeholders and engage in discussions with them to determine their support for the projects. It is also important to ensure that the client has real decision-making authority and is not a source of technical expertise/oversight who still needs to go elsewhere for decisions on project implementation. This is likely to require more field presence of senior staff who can technically engage in such business development activities with key policy makers. Efforts to increase awareness about the circumstances under which PPPs can present a solution for infrastructure constraints and how PPPs work would be important components of such upfront work. |
| IEG Recommendation | IFC PPP Advisory Services should rethink its client engagement management with a view to ensuring broad stakeholder consultation up front and maintaining or even improving government commitment to PPP transactions, in collaboration with relevant World Bank Group staff. |
| Acceptance by Management | IFC agrees |
| Management Response | The recommendation is consistent with IFC’s understanding of the critical nature of ensuring client commitment. It is also in harmony with IFC’s due diligence process and current efforts to integrate World Bank Group colleagues in the project approval and implementation. IFC PPP Advisory Services already have a process of mapping out the key stakeholders at project approval and will continue to strengthen the practice. IFC PPP Advisory Services will continue to work on improving government commitment by building capacity of government counterparts through workshops. The workshops are intended to enhance the government understanding of the process and requirements for a successful transaction. |
Framework for implementing the PPP agenda

| IEG Findings and Conclusions | PPPs are high on the World Bank Group’s strategic agenda. The recently adopted World Bank Group strategy expresses the firm intention to “increasingly promote public-private partnerships.” PPPs are also widely reflected in other conceptual and strategic notes. However, the Bank Group does not provide coherent direction on how these various strategic intentions would be translated into operations. Currently there is no explicit managerial framework that could provide guidance to staff and management on issues, such as roles and responsibilities and processes in implementing the PPP agenda, resource allocation, knowledge management, or monitoring and evaluation. In view of the various entities engaged in PPPs at the corporate and country levels across the PPP delivery chain and the currently envisaged PPP CCSA, a minimum of guidance appears essential to facilitate translating the strategic intent into a country-tailored solution. The evaluation also finds that the World Bank Group would benefit from applying PPP country diagnostics that assess a country’s readiness and help to tailor the Bank Group-wide PPP response. |
| IEG Recommendation | Once the new PPP CCSA has been established, it should translate the World Bank Group’s strategic intentions with regard to PPPs into an operational framework, covering aspects of organization and processes, resources, knowledge management, and monitoring and evaluation. This framework should (i) define the role of the PPP CCSA and its interactions with other relevant Bank Group stakeholders, (ii) facilitate the identification of country-tailored solutions based on country diagnostics, and (iii) foresee a Bank Group-wide PPP knowledge management platform. |
| Acceptance by Management | World Bank Group agrees |
| Management Response | Management broadly agrees with the recommendation. The formation of a PPP CCSA is aimed at harmonizing the PPP agenda across the World Bank Group. Management will work to articulate a strategic direction for the PPP CCSA and to develop a consistent operational framework for engaging with PPPs. Through the PPP CCSA, management will work with counterparts in regional units and the Global Practices to identify the most appropriate means for supporting operations with sound PPP diagnostics. |
### IEG Findings and Conclusions

IEG’s analysis of the country strategies of 45 countries did not reveal much evidence that the Bank Group had provided advice on whether private sector involvement (in the form of a PPP) was the best option, given the relevant country-level circumstances. The nine country cases indicate that the World Bank Group’s approach to PPPs has been based on the assumption that involving the private sector is a good thing. Although careful analysis of a transaction’s economics, feasibility, and sustainability is of course encouraged, public sector comparators—systematically comparing PPPs against the public sector for value for money to justify private sector involvement—were not a part of the World Bank Group activities.

Systematic approaches to the client government’s capacity to assess the fiscal implications of PPPs were rarely found during FY02–12. IEG’s portfolio review indicates that although World Bank Group projects tend to give attention to ensuring adequate risk sharing, downstream contingent liabilities are rarely fully quantified at the project level. Recent efforts to systematize and introduce a framework for assessing fiscal implications of PPPs are a valuable contribution, but it is unclear how they would be implemented Bank Group-wide.

### IEG Recommendation

The World Bank Group should systematically integrate efforts to assist governments in (i) making strategic decisions with regard to the level and nature of private sector participation in infrastructure and social service provision and (ii) assessing fiscal implications, including any fiscal liabilities associated with PPPs.

### Acceptance by Management

World Bank Group agrees

### Management Response

As the evaluation mentions in the overview, the World Bank Group is already increasing efforts to assist countries to develop PPP project pipelines. These efforts include the development of systematic tools capable of integrating various pieces of data into a comprehensive tool for decision makers. Moreover, these tools consider the fiscal space available for infrastructure investments.

The future PPP CCSA is expected to provide analysis, guidance, and tools to strengthen the groups’ capacity to support client countries’ decision making about partnering with the private sector, including assessing potential fiscal liabilities associated with PPPs.

In addition, if the Bank Group is to set up a Global Infrastructure Facility or Platform focused on PPPs, the Facility will be managed from the PPP CCSA, which will work to establish criteria for project selection and technical support from the Bank, upstream, in project preparation and for financial arranging of investments.
### Handling of unsolicited PPP proposals

**IEG Findings and Conclusions**  
To date, the Bank Group has not adopted a policy on how to address unsolicited proposals. In 2013, IFC advisory services issued guidelines on how to handle negotiated contracts for its PPP business line, expanding its product offerings; however, there is no Bank Group-wide practice yet. Ongoing Bank Group practice ranges from advising countries to reject unsolicited bids and solely rely on PPPs tendered out; to advising countries to design a suitable framework for managing them. Given their importance and the 2013 Bank Group strategy’s emphasis on PPPs, there is a need to provide guidance on this issue to Bank Group staff engaged both in both upstream and downstream work. The expanded product offering and resulting experience from IFC advisory services may offer useful learning for the rest of the World Bank Group.

| IEG Recommendation | The World Bank Group should provide authoritative guidance to its staff on how to handle unsolicited PPP proposals, both in its upstream and downstream work. Given the importance of unsolicited bids, in particular in countries with an upstream deal gap, there is a need for a Bank Group-wide policy on how to handle them best, so that countries can benefit from the upside of unsolicited proposals, that is, funding of project preparation and innovation, while at the same time safeguarding public interests and integrity. |
| Acceptance by Management | World Bank Group partially agrees |
| Management Response | Management agrees that this is a pressing issue that warrants authoritative guidance to staff across the World Bank Group. Management, however, does not agree that a new Bank Group-wide policy needs to be introduced.  
Determining the most appropriate means for addressing unsolicited PPP bids will require consolidating the knowledge generated within the World Bank Group as well as external organizations.  
The PPP CCSA will perform the vital function of managing and collating PPP-related knowledge. Accordingly, it will develop a comprehensive understanding of the various methods for managing and responding to unsolicited PPP bids that can be used to create a literature set on the topic of unsolicited bids. |
## Monitoring PPPs over the long term

| IEG Findings and Conclusions | IEG found that evaluation reports that shed light on important aspects of public service delivery are rare, for instance, on access, pro poor aspects, and quality of service delivery. The existing monitoring and evaluation systems (Expanded Project Supervision Reports, Implementation Completion and Results Reports, Project Evaluation Reports, and so forth), IFC’s Development Goals, and DOTS do not record these data systematically. In light of the Bank Group’s central goal of fighting poverty—reaffirmed by the new 2013 strategy’s twin goals of ending extreme poverty and promoting shared prosperity—and in light of the intent to increasingly pursue PPPs, there is an urgent need to introduce a more systematic way of monitoring PPPs. Such a system should not only better capture the end-user aspects of PPPs (where relevant), but should also monitor PPP performance beyond the early years of operational maturity. As monitoring and evaluation systems are resource intensive and need to be embedded in corporate reporting systems—which should in any case collect the relevant outcome data on a regular basis—and national statistics services. |
| IEG Recommendation | The World Bank Group should define principles for the monitoring of PPPs over the long run, that is, beyond operational maturity (IFC/MIGA) and project closure (World Bank), to capture all vital performance aspects of PPPs, including—where relevant—user aspects. |
| Acceptance by Management | World Bank Group agrees |
| Management Response | The World Bank Group is focused on decreasing the incidence of absolute poverty and boosting shared prosperity. Access to basic services remains far from universal across the developing world, which lowers quality of life and can constrain productive activities. Accordingly, the Bank Group has identified PPPs as an important delivery mechanism to maximize the reach of public resources, while improving the efficiency and quality of the basic services reaching citizens. Management agrees with IEG that monitoring the effects of World Bank Group PPP operations is vital. Together, with IFC and MIGA, the World Bank will identify a process through which a suite of principles can be created to guide and inform task teams seeking to monitor the performance of PPP operations. Additional work on impact evaluation placing PPPs against other models of service delivery may have to be explored for a fuller understanding of potential impacts. |

The committee welcomed the report and appreciated management’s broad concurrence with the findings and recommendations. They commended IEG and management for the constructive dialogue and encouraged them to continue working to achieve better results. Members acknowledged that public-private partnerships (PPPs) are crucial for closing the infrastructure gap in developing countries.

Members emphasized the importance of using the new Systematic Country Diagnostic and Country Partnership Framework to assist governments in making strategic choices regarding PPP infrastructure development. They supported incorporating PPPs into the World Bank Group’s operational framework in new country engagements and stressed the importance of early analytical work and early government engagement to identify the need for PPPs in each country context. Noting the timeliness of the evaluation with the establishment of the Global Practices and Cross Cutting Solution Areas (CCSA), members were pleased to learn that leads on PPPs will be identified in each Global Practice to ensure the PPP agenda moves forward. Members noted they expected strengthened Multilateral Investment Guarantee Agency (MIGA) support and close coordination between the International Finance Corporation (IFC), MIGA, the Global Practices, CCSAs, and the operational group, and looked forward to more information on how an integrated approach and strategic alignment among the different entities will be effectively achieved.

Members emphasized that IFC should apply a pro-poor lens to measure PPP impact. They underscored the importance of improving the World Bank Group’s monitoring and evaluation systems to better systematically record data about the impact of PPPs on poverty reduction, and to ensure such monitoring and evaluation work feeds back into future PPP project design and implementation. They welcomed that IFC will work with the Poverty Global Practice and results measurement experts in the World Bank Group in order to come up with adequate indicators and were encouraged to learn that client feedback on results measurement will be extended to all Global Practices to measure progress and ensure adequate service is being provided.

Members encouraged IFC to use a well-balanced risk-based approach and to strengthen its engagement in frontier, nascent, and emerging markets, particularly those with weak PPP-enabling environments, where IFC’s additionality is strongest. They agreed that coordination with MIGA would be crucial. Members agreed with the need for more ex ante fiscal analysis and a deepening of political economy expertise by IFC. The committee stressed the importance of clearer communications about PPPs’ benefits and transaction costs. They called for a stronger focus on assisting governments to manage PPP fiscal implications and local resources; spreading knowledge and best practices; assisting clients in making strategic decisions on the level and nature of private sector participation in infrastructure; and addressing client countries’ resource and capacity limitations to operationalize PPP pipelines.

Juan José Bravo
CHAIRPERSON
Box 1.3: PPPs—Tariffs and Poverty Aspects
Box 2.1: Elements of an Enabling Environment for PPPs
Box 3.1: Public-Private Infrastructure Advisory Facility
Box 3.2: World Bank Operational Note on Managing Fiscal Commitments from PPPs
Box 3.3: PPIAF’s Upstream Support to the Power Sector in Brazil
Box 3.4: Drivers of Success and Failure in Creating and Maintaining Political Commitment and Awareness—Guatemala and the Philippines
Box 3.5: Paving the Way for PPPs through Effective Water Sector Reform—Senegal
Box 3.6: Private Energy Generation Facing Regulatory Failure—Ghana
Box 3.7: The Institutional Framework for Managing PPPs—Colombia versus Guatemala
Box 3.8: Lessons on How to Embed PPP Components—Ghana
Box 4.1: How Pro-Poor Issues Are Addressed by World Bank Group’s PPPs—Examples from the Philippines
Box 4.2: PPP Failure Caused by Weak Sector Structure and Regulatory Framework—Senegal
Box 4.3: IFC Investment in Water—Successfully Improving Access and Quality
Box 4.4: IFC’s InfraVentures—A Mechanism to Support PPP Project Preparation
Box 4.5: The Role of IFC Advisory Services in Brazil
Box 4.6: MIGA’s Role in Getting PPPs Off the Ground
Box 4.7: Implementing Safeguards in PPP Projects—Bujagali Hydropower Project in Uganda
Box 4.8: Demonstration and Replication Effects in the Philippines
Box 5.1: Successful Work as One World Bank Group—Examples
Box 5.2: Missed Opportunities to Work as One World Bank Group

Figures

- Figure 1.1: The Spectrum of PPP Arrangements
- Figure 1.2: WBG Lending, Investments and Guarantees Targeting PPPs—Volume and Share of Volume per Institution, FY02–12
- Figure 1.3: Depth of World Bank Group Support Targeted to PPPs, per Country
- Figure 1.4: PPP Framework
- Figure 1.5: Evaluation Results Chain
- Figure 2.1: World Bank Group-Wide Deployment of PPP Interventions to Countries According to Their Maturity to Manage PPPs, FY02–12
- Figure 2.2: Deployment of World Bank Upstream Work to Countries According to their Maturity to Manage PPPs, FY02–12
- Figure 2.3: Deployment of Downstream Work by IFC Investment and MIGA According to Country Ability to Manage PPPs, FY02–12
- Figure 2.4: PPP Constraints in Country Strategies
- Figure 3.1: Share of World Bank Loans with Upstream and Downstream Components
- Figure 3.2: World Bank Instruments Use across Upstream and Downstream Work
- Figure 3.3: Objectives of World Bank Group Upstream Support
Figure 3.4: World Bank Achievement of Upstream Objectives and Evidence for Outcomes

Figure 3.5: Results by Type of Instrument

Figure 4.1: Type of PPPs in World Bank Group Operations

Figure 4.2: Sector Priorities in PPPs: World Bank Group Response versus the Market (per PPI Database)

Figure 4.3: IFC’s Investments in PPPs, FY02–12

Figure 4.4: IFC’s Advisory Services in PPPs—Volume of Funding of Services, FY02–12

Figure 4.5: MIGA Guarantees to PPPs—Volume of Guarantees Issued (gross), FY02–12

Figure 4.6: World Bank Transaction Support to PPPs, FY02–12

Figure 4.7: Elements of a PPP Monitoring and Evaluation System

Figure 4.8: Objectives Pursued through PPPs

Figure 4.9: Performance Indicators for IFC, World Bank, and MIGA-Supported PPPs

Figure 4.10: PPP Development Outcomes and Country-Level Maturity

Figure 4.11: Risk Profile of IFC’s Investments in PPPs, Compared to Other Infrastructure Investments

Figure 4.12: Development Outcomes and Work Quality—IFC-Supported PPPs and Infrastructure Projects

Figure 4.13: IFC Advisory Services Success along the PPP Delivery Chain

Figure 4.14: Risk Profile of IFC Advisory Services PPP Compared to Other IFC Advisory Services Business Lines and Investments

Figure 4.15: Risk Profile of MIGA PPPs and IFC Investments in PPPs, Three-Year Rolling Average, FY02–12

Figure 4.16: Development Outcomes and Underwriting Quality—MIGA-Supported PPPs and Infrastructure Projects

Figure 4.17: Country Risk of World Bank Downstream PPP Transactions

Figure 4.18: World Bank PPP Outcome Ratings and “Project Flags”

Figure 5.1: World Bank Group Entities Engaged in PPPs

Figure 5.2: Working as One World Bank Group—Evidence from 45 Country Reviews

Figure 5.3: Systematic Country Diagnostic Framework for PPPs

Figure 5.4: Country—Sector—Project Parameters for PPPs

Tables

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

Table 3.1: Advantages and Disadvantages of a Dedicated PPP Unit

Table 4.1: Availability of Results Data for World Bank Group–Supported PPPs

Table 4.2: PPPs Assessed In Depth, by Sector and Type of PPP