

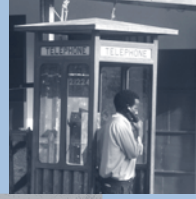
Annual Report 2001



PPIAF

PUBLIC-PRIVATE INFRASTRUCTURE ADVISORY FACILITY





PPIAF

PUBLIC-PRIVATE INFRASTRUCTURE ADVISORY FACILITY



Helping to
eliminate poverty
and achieve
sustainable
development through
private
involvement in
infrastructure

PPIAF at a Glance

The Public-Private Infrastructure Advisory Facility (PPIAF) is a multidonor technical assistance facility aimed at helping developing countries improve the quality of their infrastructure through private sector involvement. Launched in July 1999, PPIAF was developed at the joint initiative of the governments of Japan and the United Kingdom, working closely with the World Bank. PPIAF is owned and directed by participating donors, which include bilateral and multilateral development agencies and international financial institutions. PPIAF was built on the World Bank Group's Infrastructure Action Program and has been designed to reinforce the actions of all participating donors. PPIAF is governed by a Program Council comprising representatives of participating donors and is managed by a small Program Management Unit.

PPIAF pursues its mission through two main mechanisms:

- Channeling technical assistance to governments in developing countries on strategies and measures to tap the full potential of private involvement in infrastructure.
- Identifying, disseminating, and promoting best practices on matters related to private involvement in infrastructure in developing countries.

Support Available

PPIAF can finance a range of country-specific and multicountry advisory and related activities in the following areas:

- Framing infrastructure development strategies to take full advantage of the potential for private involvement.
- Building consensus for appropriate policy, regulatory, and institutional reforms.
- Designing and implementing specific policy, regulatory, and institutional reforms.
- Supporting the design and implementation of pioneering projects and transactions.
- Building government capacity in the design and execution of private infrastructure arrangements and in the regulation of private service providers.

PPIAF assistance can facilitate private involvement in the financing, ownership, operation, rehabilitation, maintenance, or management of eligible infrastructure services. Eligible infrastructure services comprise roads, ports, airports, railways, electricity, telecommunications, solid waste, water and sewerage, and gas transmission and distribution. Countries eligible for PPIAF-financed assistance include developing and transition economies as listed from time to time by the OECD's Development Assistance Committee.

Applying for PPIAF Support

Applications for PPIAF support can come from any source. In the case of country-specific activities, however, the beneficiary government must approve all requests for support. An application form for PPIAF support can be downloaded or completed on-line through the PPIAF Web site (<http://www.ppiaf.org>) or be requested from the Program Management Unit. Proposals will be assessed against the criteria specified in PPIAF's charter, which is available on the Web site or can be requested from the Program Management Unit. Those criteria include consistency with PPIAF's mission, government commitment, additionality, donor coordination, value for money, and environmental and social responsibility.

Delivery of PPIAF Services

PPIAF-financed activities make extensive use of consultants. Procurement is governed by World Bank guidelines. Further information about procurement arrangements and consultancy opportunities is available from the PPIAF Web site.



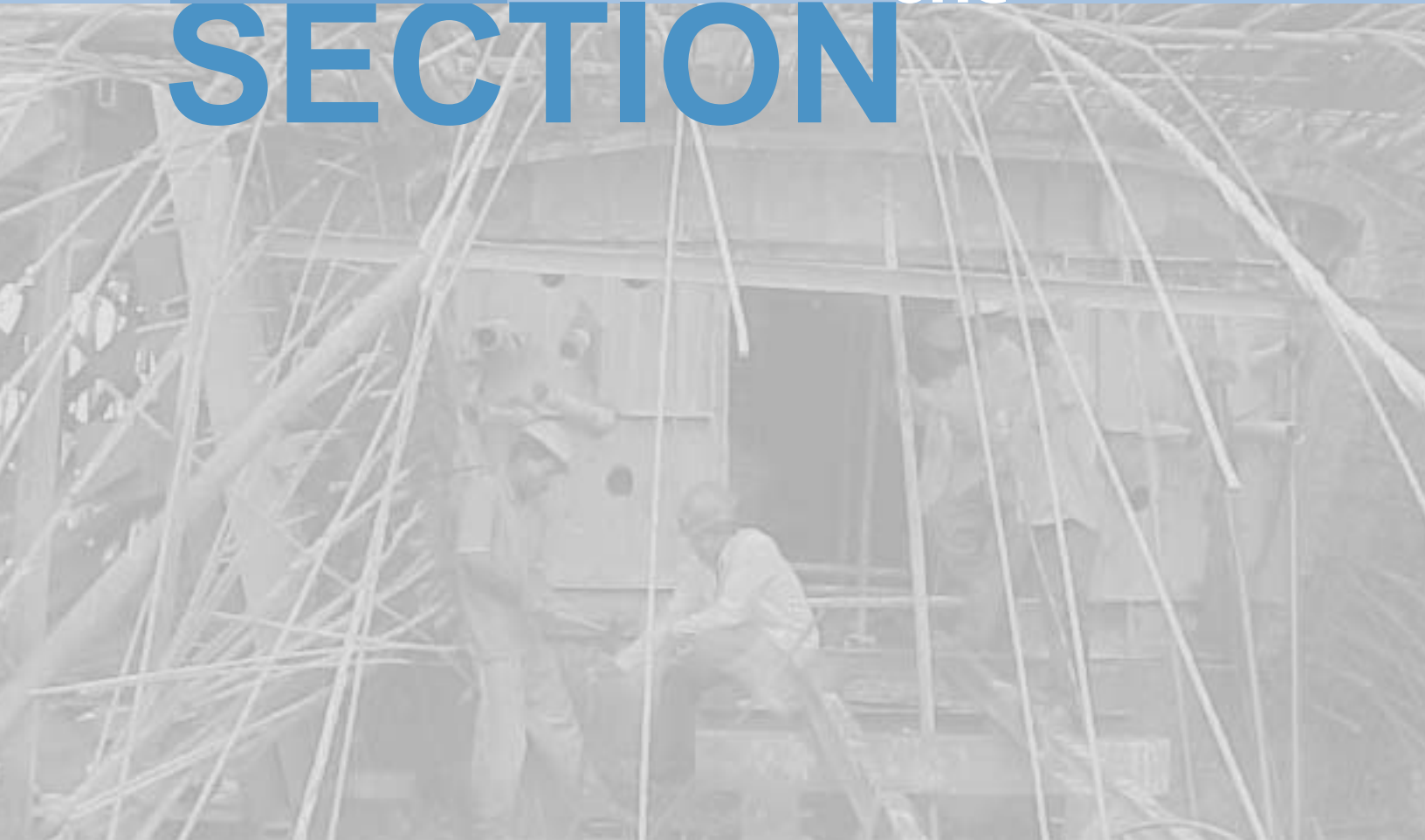
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SECTION



Infrastructure and Development: The Promise of Private Involvement

POVERTY ALLEVIATION AND INFRASTRUCTURE

For many years governments in developing countries sought to meet their infrastructure needs primarily through public sector monopolies, investing on average about 4 percent of national output, or \$250 billion, annually. The results were largely disappointing. With rare exceptions, traditional public sector-based infrastructure provision failed to deliver efficient, cost-effective services. And basic services such as water and electricity, which have a direct and immediate impact on health and the quality of life, have failed to reach those most in need. Two billion people still lack adequate sanitation, and 1 billion lack adequate access to clean water. Electricity has yet to reach 2 billion people worldwide, and in many parts of Sub-Saharan Africa a mere 6 percent of the population is

hooked up to the power grid. Even where basic infrastructure exists in some rudimentary form, the service is often poor and unreliable.

Disenchantment with the traditional approach to infrastructure has led governments to explore how best to mobilize and harness the skills and resources of the private sector. Many governments are reexamining their own role and seeking to transform it—moving away from being the exclusive financiers, managers, and operators of infrastructure to being facilitators and regulators of services provided primarily by private firms.

In this context, developing country governments have recognized the large burden that infrastructure provision places on public finances, diverting resources that might otherwise be used in providing social services such as education and health care. The investment requirements for addressing even basic needs in infrastructure cannot be met solely through public resources: private finance and management are critical in improving services for the poor. Governments and the donor community increasingly accept private provision as a means for expanding access to essential infrastructure services through investment in new capacity and in improvements in the quality and efficiency of existing services. And mounting evidence supports the view that competitive, appropriately regulated private infrastructure services can be economic, equitable, and efficient.

These benefits of private involvement in infrastructure are being realized in an increasing number of countries, rich and poor alike. As highlighted in the section below, private participation in infrastructure has grown across regions and sectors during the past decade.

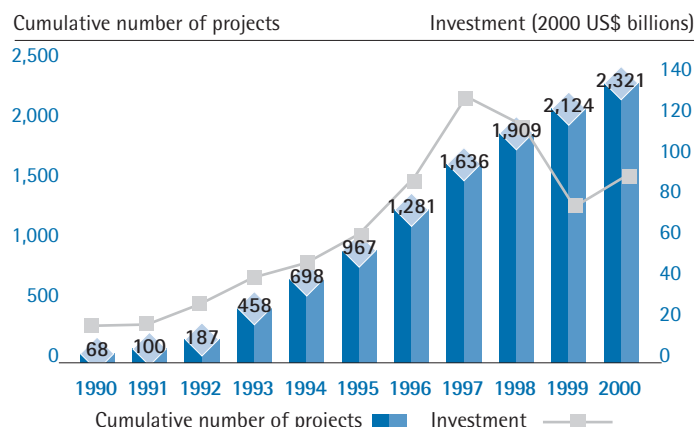


THE PRIVATE SECTOR'S ROLE IN INFRASTRUCTURE, 1990–2000

A growing number of developing countries have liberalized and privatized infrastructure activities, with the private sector assuming a significant role as a long-term operator and financier of infrastructure projects. Private firms took on the operation and construction of more than 2,300 infrastructure projects in 129 developing economies between 1990 and 2000. Those projects involved cumulative investments of more than \$680 billion over that period.¹

Private activity, measured by investment flows to infrastructure projects with private participation, rose steadily, from \$17 billion in 1990 to a peak of \$123 billion in 1997 (figure 1.1). While private activity declined in 1998–99, following the shocks of the 1997 financial crises, the most recent statistics suggest that it started to revive in 2000. In that year investment flows increased by 17 percent relative to the 1999 level, regaining the 1996 level of nearly \$90 billion.

Figure 1.1 Annual investment flows to infrastructure projects with private participation in developing countries, 1990–2000



Source: World Bank, PPI Project Database.

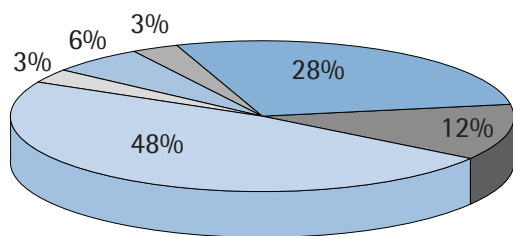
Regional Trends

Latin America and the Caribbean and East Asia and Pacific have led the growth in private participation since 1990, followed by Europe and Central Asia (figure 1.2). Latin America accounted for almost half the investment in projects with private participation in 1990–2000, while East Asia captured about a quarter. Disaggregated data from East Asia reveal that middle-income countries accounted for about 75 percent of the flows to that region. Europe and Central Asia attracted 12 percent of the investment in 1990–2000. Private activity has been limited in South Asia, Sub-Saharan Africa, and the Middle East and North Africa—in total about equal to that in Europe and Central Asia—and restricted to a few projects, mainly in telecommunications. Still, South Asia has seen significant growth in recent years, though from a small base.



1. Unless otherwise specified, all dollar amounts are in 2000 U.S. dollars.

Figure 1.2 Investment in infrastructure projects with private participation in developing countries by region, 1990–2000

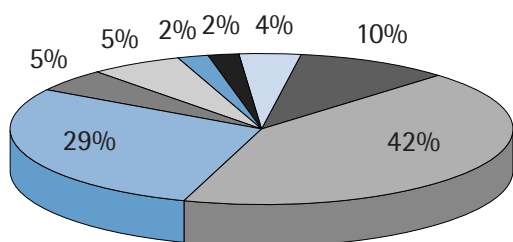


Total: \$682 billion (2000 US\$)

- East Asia and Pacific 28%
- Europe and Central Asia 12%
- Latin America and the Caribbean 48%
- Middle East and North Africa 3%
- South Asia 6%
- Sub-Saharan Africa 3%

Source: World Bank, PPI Project Database.

Figure 1.3 Investment in infrastructure projects with private participation in developing countries by sector, 1990–2000



Total: \$682 billion (2000 US\$)

- Airports 2%
- Electricity 29%
- Natural gas transmission and distribution 5%
- Ports 2%
- Rail 4%
- Roads 10%
- Telecommunications 42%
- Water and sewerage 5%

Source: World Bank, PPI Project Database.

Sector Trends

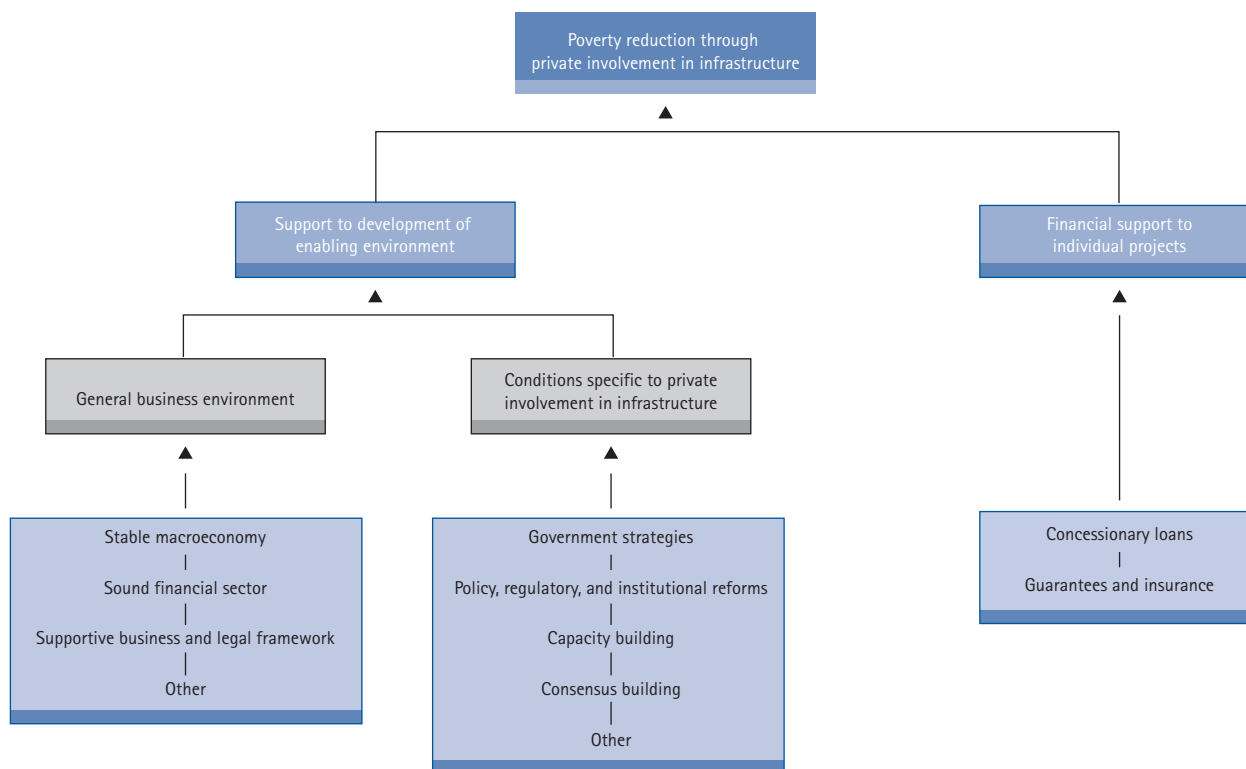
Private activity in infrastructure varied significantly across sectors in 1990–2000. Telecommunications and energy (primarily electricity) led, together accounting for more than 75 percent of private activity in the 1990s (figure 1.3). Transport sectors accounted for another 18 percent. Water and sewerage lagged, receiving just 6 percent of total private investment over the period. This small share reflects the continuing challenges of introducing private investment in sensitive sectors that are often the responsibility of subnational governments.

LOOKING AHEAD: THE CHALLENGES OF INFRASTRUCTURE PROVISION AND THE ROLE OF PPIAF

Most developing countries have introduced some form of private involvement in infrastructure. But extending reform poses challenges even for industrial countries, and progress has been slow in such regions as South Asia and Sub-Saharan Africa and in such sectors as water and sewerage. Expanding private participation in infrastructure can be especially daunting for a developing or transition economy facing external shocks, which can reduce investor confidence in long-term investment. Moreover, private involvement is no guarantee of success. Consider the unfortunate results of ill-conceived and poorly executed private infrastructure projects. Experience shows that the benefits of private participation depend critically on the form of involvement and on the rules and incentives under which the private sector operates.

Donors and international development agencies have played an important part in helping developing country governments meet the challenges of infrastructure provision. The development community has provided support under two broad headings: finance for individual projects and assistance in developing an appropriate enabling environment. Interventions of the second type include those focusing on the general business environment as well as those addressing conditions specific to private involvement in infrastructure (figure 1.4).

Figure 1.4 Development assistance, private involvement in infrastructure, and poverty reduction



Until recently development assistance aimed at helping governments improve the enabling environment for private involvement in infrastructure was largely ad hoc—reactive rather than proactive—and it often failed to realize the potential benefits of broader and more systematic approaches. The assistance also tended to limit the transfer of lessons of experience between donors, between beneficiary governments, and between sectors.

Recognition of the limits of past approaches prompted the establishment of the Public-Private Infrastructure Advisory Facility (PPIAF) in July 1999, with a mandate to assist developing countries in improving the quality of their infrastructure through private involvement. Building on the successful experience of other thematically focused multidonor and bilateral assis-

tance programs, PPIAF complements and reinforces the activities of official donors. It serves as a mechanism for improving the quality, coherence, and coordination of technical assistance in infrastructure while mobilizing and leveraging donor resources.

At the PPIAF annual meeting in May 2001 PPIAF’s donors discussed and agreed on an Indicative Work Program for the coming year. This program is not a “master plan” for the coming year’s activities, since PPIAF is primarily a demand-driven funding facility, receiving and reviewing applications from a wide range of sources. Instead, the Indicative Work Program is just what its name suggests—the best estimate of the balance among different types of PPIAF-funded activities. Given PPIAF’s goal of broad dissemination of emerging lessons and frontier issues,

including both sectoral and customized regional approaches, the Indicative Work Program also includes some broad themes for possible outputs on emerging best practices.

In developing this list of themes, PPIAF's Program Council considered several factors:

- Evidence of limited success in some sectors and countries in broadening private participation in infrastructure service provision.
- Results of activities that PPIAF has already funded.
- Views and suggestions of PPIAF stakeholders.

These considerations led to a focus on a number of broad topics. The following sections discuss several of these, highlighting some of PPIAF's ongoing activities, reporting early progress, and raising key questions and challenges.

Private Provision of Rural and Peri-Urban Infrastructure

Providing affordable, cost-effective infrastructure services—both grid and off-grid—to consumers in low-income rural and peri-urban areas is central to poverty reduction efforts in developing countries. Historically, governments have tried to meet this challenge primarily by imposing universal service obligations on monopolistic state-owned enterprises or by establishing dedicated rural water, telephony, or electrification schemes that depend heavily on public financing and delivery. But in recent years several countries—such as Guinea, Namibia, and Uganda—have attempted to develop innovative schemes that rely on at least some private involvement, usually structured on a sector-specific basis (box 1.1). This approach raises important questions about the role of public funding (including subsidy design and delivery), the establishment of “bankable” projects for the private sector, the need for a level playing field between small-scale infrastructure providers and large-scale utilities, and options for achieving economies of scale across different infrastructure services. It also requires consideration of the role of local private operators and their financing needs.

Output-Based Approaches to Providing Infrastructure Services

A focus on market solutions for providing infrastructure services may raise concerns about the affordability of these services, especially in low-income rural and peri-urban areas. Public subsidies, whether sourced from a government's own resources or from donors, can play an important role in facilitating private involvement while also improving the affordability of services for the poor. Traditionally, public subsidies of this kind have been directed to inputs, such as the construction of assets used in delivering services. But this approach has often led to disappointing outcomes. As a result, there has been growing interest in





Box 1.1 Capturing the emerging lessons in private provision of rural infrastructure services

Recent attempts to provide rural infrastructure through innovative schemes that increase the reliance on the private sector have achieved mixed results. Many of these schemes have raised concerns about effectiveness in targeting public subsidies, the degree of competition and private sector risk sharing, the effective cost per connection, and the sustainability of financing. But many have given private operators the opportunity to enter a rural infrastructure market and establish profitable and growing businesses.

While an extensive literature documents experience with donor-supported activities involving the private sector, it has left significant gaps. No systematic attempt has been made to review or transfer the lessons of experience from many examples of private service provision. Nor has there been adequate review of the post-privatization performance of some examples of rural infrastructure businesses.

To help close these gaps in the literature, a recently approved PPIAF activity seeks to identify the most promising examples of private provision of rural infrastructure and prepare detailed case studies of them. This work is expected to provide policymakers and practitioners with better information about what works and what does not.



exploring ways of tying subsidy payments to results, such as the number of new household connections made. Several countries have recently begun experimenting with these output-based aid approaches (box 1.2). Still, many challenging issues in design and implementation remain.

Managing the Transition to Markets

A well-managed transition from state-owned monopoly to competition in infrastructure can lead to improved efficiency. Introducing competition can help increase private involvement, sharpen incentives for efficiency,

reduce the demands on regulators, and expand choice for consumers, including the poor. This transition is most advanced in telecommunications, while progress has been slower in other infrastructure sectors. The key challenge for policymakers is how to manage the transition from monopoly to competition, which poses such practical challenges as these:

- Rebalancing tariffs.
- Redesigning subsidy schemes.
- Designing the long-term contracts that may be needed for initial private participation in a way that does not impede the development of competitive solutions over time.

- Addressing potential claims for compensation from owners of assets that may be “stranded” in a more competitive market.
- Clarifying the respective roles of utility regulators and competition authorities.

Labor and Social Issues in the Reform Process

In undertaking infrastructure reform, countries not only must overcome technical, financial, and capacity constraints, they also must address concerns about the effects of the reform on labor. Sheltered from competition and subsidized by their public owners, state-owned infrastructure firms often employ too many people, leading to low labor productivity and high labor costs. Involving the private sector in existing infrastructure enterprises can lead to

surplus labor as the new owners or operators introduce efficiency improvements and expose the enterprises to greater management discipline, new technologies, and increasing competition.

Anticipation of job losses has often led to vocal, organized opposition to private participation. This political pressure is often compounded by concerns about the potential social impact of job losses, especially in countries with undeveloped social safety nets or static labor markets. As a result, transactions requiring major labor adjustments are often delayed, despite the potential for large economic gains. But experience shows that private participation can proceed smoothly if early efforts are made to balance the interests of consumers with fair and equitable treatment of workers (box 1.3).



Box 1.2 Using output-based aid for the delivery of infrastructure and related services

Over the years many efforts have been made to increase the effectiveness of subsidies intended to improve performance in infrastructure sectors. While the move to private participation in infrastructure has strengthened sector performance and lowered costs, affordability remains a concern for some low-income consumers, and attempts to target subsidies to improving services for these groups still often fall short.

To help inform and promote discussion of practical options for improving the targeting and delivery of subsidies for infrastructure services, PPIAF supported five case studies on applications of output-based aid in infrastructure. Output-based aid seeks to increase the effectiveness of subsidies by delegating service delivery to private entities, under contracts that tie payments to the outputs or results actually delivered to target beneficiaries. Through the monetary incentives created in this way, the approach is aimed at producing a measurable impact on development outcomes (for example, improving access to modern energy, to telecommunications in rural areas, or to potable water and safe sanitation).

This approach to development assistance and government spending contrasts with traditional approaches, which often focus on financing inputs—for example, building a power plant or water pipeline—with at best

an indirect relationship with the services delivered. The output-based aid approach builds on the now extensive experience with public sector performance contracting and private participation in the delivery of infrastructure services.

The five PPIAF-supported case studies looked at applications of output-based aid to roads in Argentina, water in Chile and in Guinea, and telecommunications in Peru and carried out a general survey in the power sector. These cases illustrate the challenges of introducing and sustaining output-based contracting and allocation of subsidies, but also the potential offered by this approach for improving service delivery, effectively targeting subsidies, and expanding access to services for the poor.

The PPIAF-funded case studies have been collected in a book, *Contracting for Public Services: Output-Based Aid and Its Applications*, along with case studies in other sectors (funded by the World Bank). Launched in October 2001, the book is being widely disseminated to the donor and multilateral community, with the aim of helping to improve the design and implementation of output-based transactions in infrastructure. A PDF version of the book is available on the PPIAF Web site (<http://www.ppiaf.org/emerging.htm>).



Box 1.3 Dealing with labor issues in privatization

Designing and implementing labor strategies that involve complex social and political issues are difficult and sensitive tasks. While research and analytical work have looked at experience in this area, few practical tools exist to help translate the broad principles and lessons of experience into practice. To aid systematic learning and sharing of experiences across sectors and regions, PPIAF (in collaboration with other donors) is supporting the preparation of a toolkit to provide policymakers with practical tools and information for dealing with the sensitive labor issues that can arise in privatization transactions.

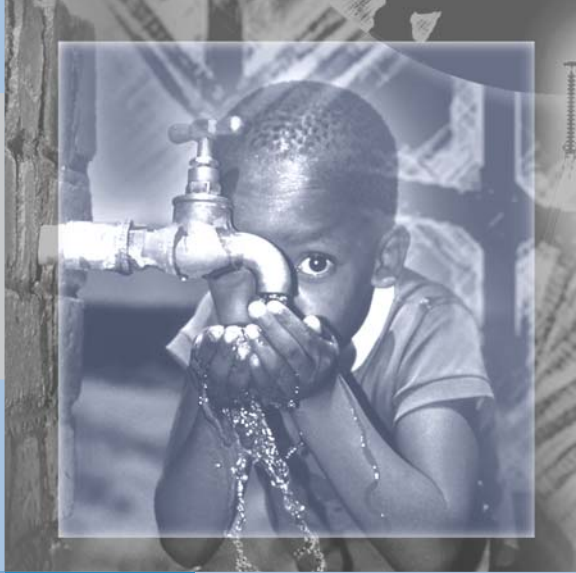
Initial case studies have looked at how labor issues were dealt with in the privatization of railways in

Mexico, the power sector in Orissa (India), and the water authority in Manila (Philippines). These case studies shed light on issues related to:

- The timing and sequencing of labor restructuring.
- The design of severance packages and treatment of pension liabilities.
- The employment impact of privatization (on jobs, wages, working conditions, and pension and other benefits).
- The role and involvement of labor unions and other key stakeholders in the privatization transaction.

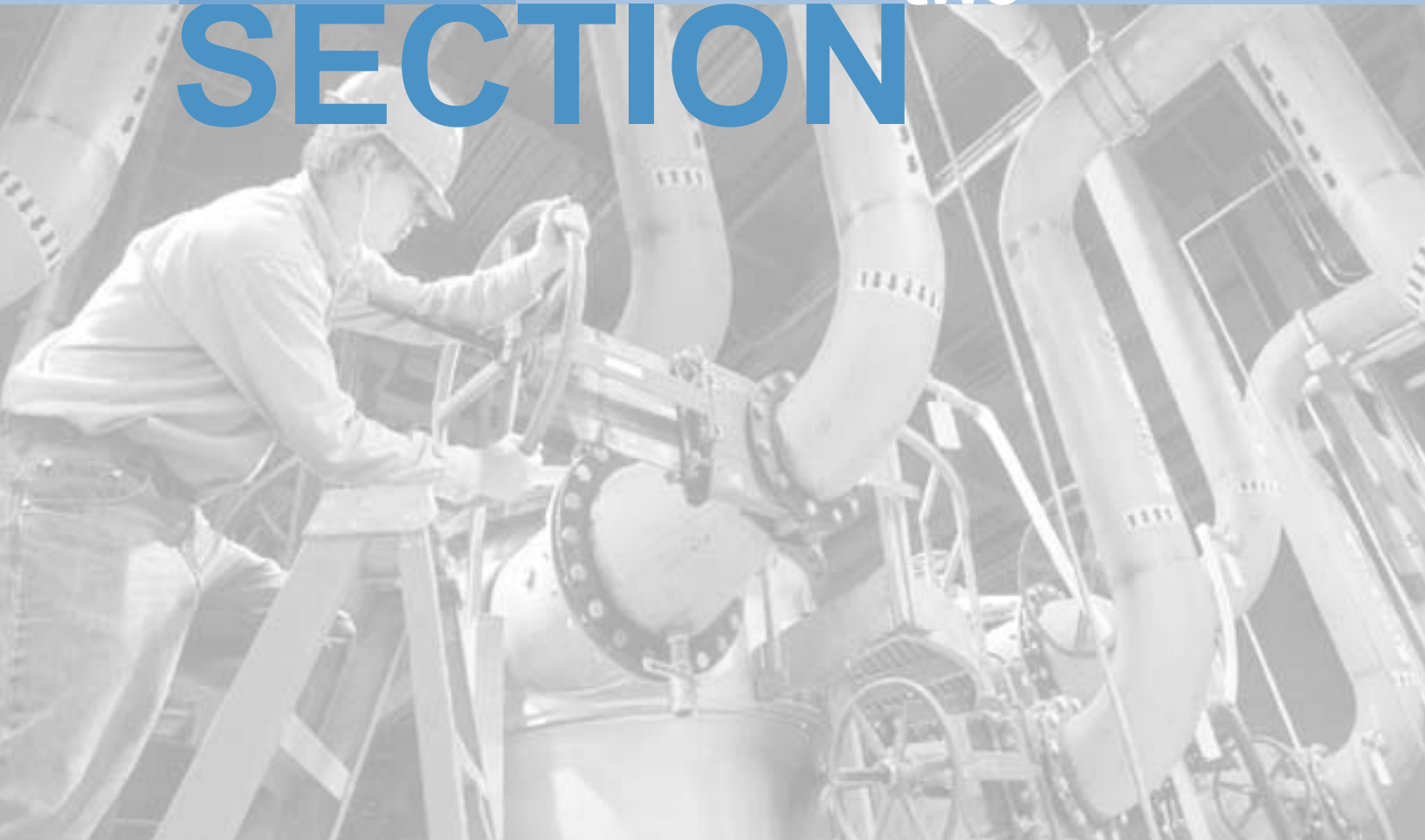
The toolkit is expected to be widely disseminated (in print and on CD-ROM) in the fall of 2002.





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SECTION



Operations

This section summarizes PPIAF's fiscal 2001 portfolio and highlights some completed activities, describing their impact, along with selected activities still under way.

THE FISCAL 2001 PORTFOLIO: AN OVERVIEW

PPIAF funded a range of activities in all eligible sectors and across all developing regions in its second year of operation. In the fiscal year ending June 30, 2001, the PPIAF portfolio covered 74 activities in more than 39 countries, including 22 regional activities, for a total value of \$18.7 million. Additional cofinancing of around \$10.2 million was mobilized from other donors and through contributions from governments.

Geographic Focus

Countries eligible for PPIAF assistance are those classified by the OECD Development Assistance Committee's list of aid recipients as developing countries and territories (all five columns of the part I table) and countries and territories in transition (column one of the part II table).

Among regions, Sub-Saharan Africa accounted for the largest share of activities and funding in fiscal 2001, followed by East Asia and Pacific and Europe and Central Asia (table 2.1; figure 2.1).

Sector Focus

PPIAF can and has supported private sector involvement in the financing, ownership, operation, rehabilitation, maintenance, or management of an eligible infrastructure service—as well as various combinations of these. This support covers a broad spectrum of contracting approaches, from management contracts and leases to concessions and divestitures.

PPIAF support also covers a range of eligible infrastructure sectors:

- Energy—electricity generation, transmission, and distribution; and natural gas transmission and distribution.
- Transport—roads, ports, airports, and railways.
- Telecommunications.
- Water—water and sewerage, and solid waste.

As for the first year of operation, the Program Council agreed that the portfolio for fiscal 2001 reflected a reasonable balance across the eligible sectors. Multisector activities—those covering more than one sector—accounted for the largest number of approvals, reflecting PPIAF's continued emphasis on systematic approaches that transfer lessons and experience across sectors (table 2.2).

Deliverables

Ranked by portfolio share, the top deliverables in fiscal 2001 were policy, regulatory, and institutional reforms; and infrastructure development strategies (table 2.3).

Table 2.1 PPIAF activities by region, fiscal 2001

Region	Number of activities	Funding (US\$ thousands)	Share of activities (%)	Share of funding (%)
East Asia and Pacific	11	3,263	15	17
Europe and Central Asia	11	3,009	15	16
Latin America and the Caribbean	12	1,669	16	9
Middle East and North Africa	3	702	4	4
South Asia	7	1,538	9	8
Sub-Saharan Africa	21	6,616	29	36
Global	9	1,887	12	10
Total	74	18,683	100	100

Table 2.2 PPIAF activities by sector, fiscal 2001

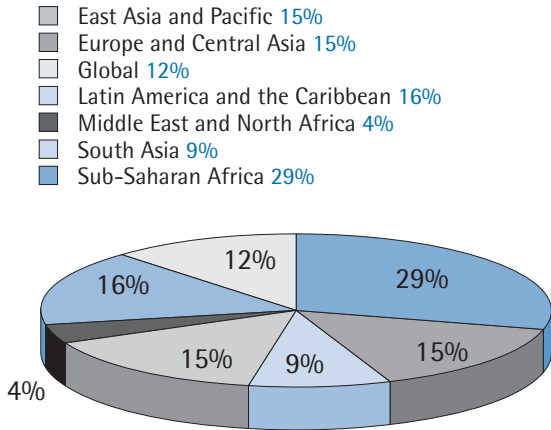
Sector	Number of activities	Funding (US\$ thousands)	Share of activities (%)	Share of funding (%)
Energy	9	3,292	12	18
Electricity	6	2,072	8	11
Gas	3	1,220	4	7
Multisector	27	5,634	36	30
Telecommunications	11	2,224	15	12
Transport	6	1,483	8	8
Airports	1	67	1	0.4
Ports	2	668	3	4
Railways	2	673	3	4
Roads	1	75	1	0.6
Water and sewerage	21	6,050	29	31
Total	74	18,683	100	100

Table 2.3 PPIAF activities by deliverable, fiscal 2001

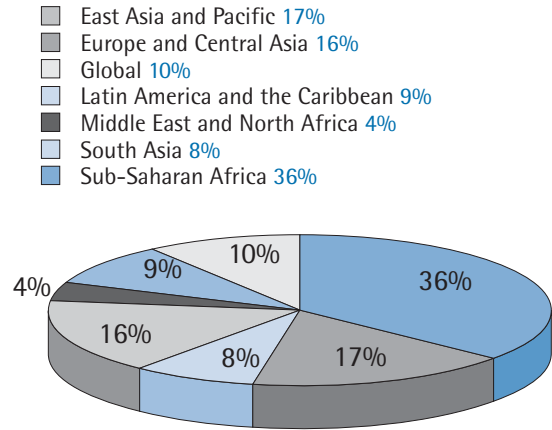
PPIAF deliverable	Number of activities	Funding (US\$ thousands)	Share of activities (%)	Share of funding (%)
Capacity building	11	2,259	15	12
Consensus building	5	357	7	2
Identification, dissemination, and promotion of emerging best practices	9	2,197	12	12
Infrastructure development strategies	20	6,230	27	33
Policy, regulatory, and institutional reforms	29	7,640	39	41
Total	74	18,683	100	100

Figure 2.1 Distribution of PPIAF portfolio, fiscal 2001

Share of activities

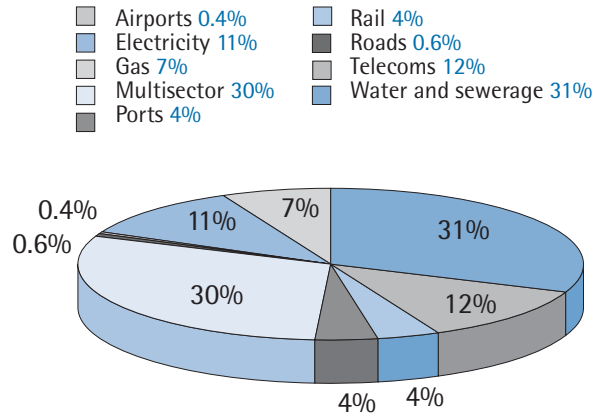
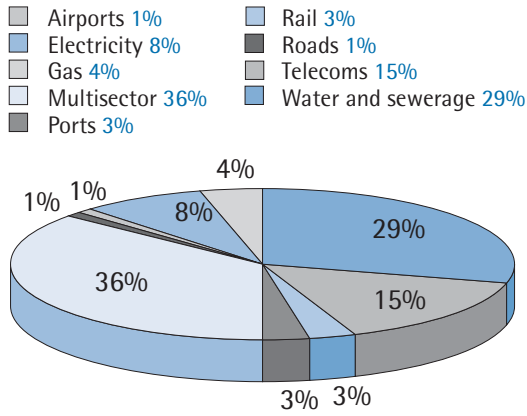


Share of funding



By region

By sector



By PPIAF deliverable

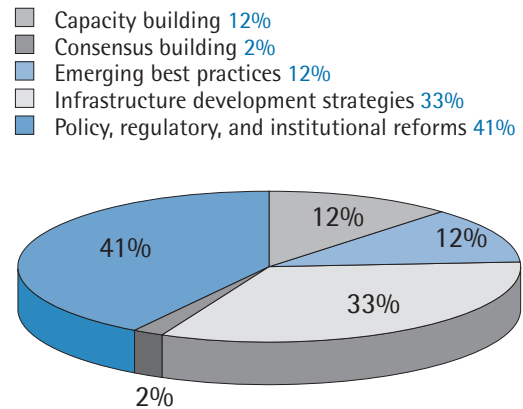
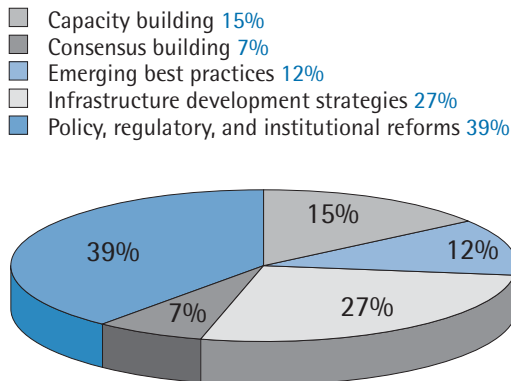
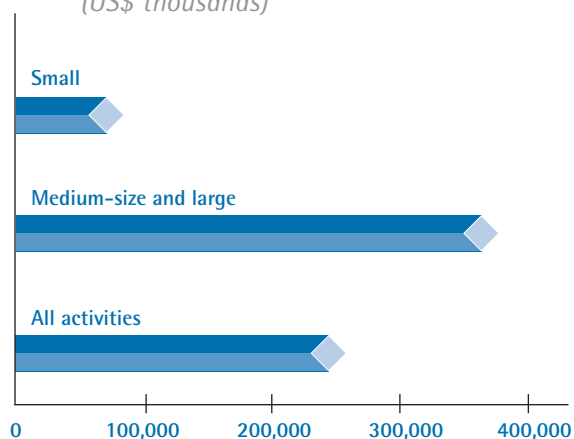


Table 2.4 PPIAF activities by size, fiscal 2001

Size	Number of activities	Funding (US\$ thousands)	Share of activities (%)	Share of funding (%)
Small	30	2,047	41	11
Medium-size	8	1,462	11	8
Large	36	15,174	49	81
Total	74	18,683	100	100

Figure 2.2 Average size of PPIAF activities, fiscal 2001
(US\$ thousands)



Size of Activities

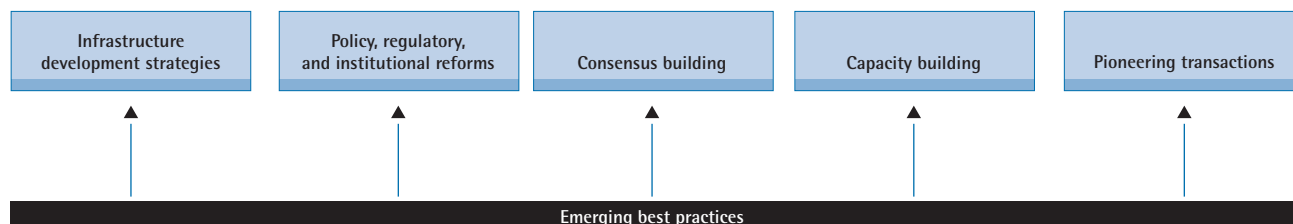
Small activities (\$75,000 or less), with an average value of \$68,218, accounted for 30 of the 74 approvals (41 percent) in fiscal 2001, for a total value of \$2.047 million (figure 2.2; table 2.4). Medium-size and large activities (more than \$75,000) made up a larger share of the portfolio, both in number (44) and in value (\$16.636 million), with an average size of \$378,101. The average size for all activities was \$252,473, slightly larger than the previous year's average of \$210,784.

PORTFOLIO REVIEW OF SELECTED ACTIVITIES

This section presents a summary of selected activities that have been undertaken under one or more of PPIAF's six deliverables: policy, regulatory, and institutional reforms; infrastructure development strategies; consensus building; capacity building; support to pioneering projects and transactions; and, common to and underlying the first five deliverables, identification, dissemination, and promotion of emerging best practices (figure 2.3).

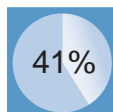


Figure 2.3 PPIAF Deliverables



The activities described here are classified by their primary deliverable. But many activities involve more than one deliverable. For example, the activity Seminars on Best Practice in Private Sector Transactions in Water and Sanitation had elements of consensus and capacity building and policy, regulatory, and institutional reforms in addition to its primary component, identification, dissemination, and promotion of emerging best practices. (See annex 1 for a brief description of fiscal 2001 activities classified by deliverable.)

Many government and regulatory officials sought advice on strengthening institutions that support private participation in infrastructure, enhancing competition, and choosing options for private participation suited to their country’s circumstances. PPIAF responded with activities that ranged from helping Turkey broaden private competition in the energy sector to providing Azerbaijan with technical advice on privatizing its electricity and natural gas sectors. Other examples of support in this area include the following:



POLICY, REGULATORY, AND INSTITUTIONAL REFORMS

Governments face myriad challenges as they transform their roles as financiers, owners, and operators of infrastructure services into new roles as facilitators and regulators of privately provided services. During the fiscal year PPIAF met with strong demand from governments for guidance on developing detailed strategies for involving the private sector, on restructuring industries to facilitate competition, and on designing and establishing legal, regulatory, and institutional frameworks. In response to this demand, PPIAF approved 29 activities in the area of policy, regulatory, and institutional reforms in fiscal 2001, more than for any other deliverable (see annex 1 for a description of these activities).

- In Nepal PPIAF funding supported the organization of competitive bidding for a rural telecommunications license in the country’s eastern region. The arrangements include a one-time capital subsidy for rural service provision, allocated through market mechanisms. This model is expected to bring complete access to basic telecommunications services to even the most challenging settings in Nepal within two years. The model is being extended to similar network infrastructure sectors in Nepal as well as in other countries.
- In Gabon a PPIAF activity prepared a guidebook on the interconnection pricing system to assist regulators and new telecommunications providers. The guidebook will enable new entrants to spend less time negotiating interconnection agreements—and to start operations sooner. The guidebook is also

expected to help existing providers renegotiate their interconnection agreements, taking advantage of the greater transparency and competition in the sector.

- In South Africa PPIAF technical assistance is helping to develop a reform package to attract more private finance for natural gas supply to unserved or underserved low-income areas. The reforms will introduce emission reduction credits and leverage them into more rapid introduction of natural gas throughout South Africa by small and medium-size firms.

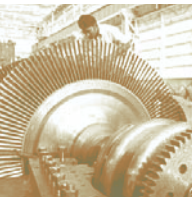
PPIAF activities also provided assistance in preparing and putting in place new legal, regulatory, and institutional frameworks—to assure private investors that the “rules of the game” are well defined and will be adhered to. These activities include establishing a legal and regulatory framework for the gas sector in Vietnam, harmonizing the policy and legislative frameworks for telecommunications in Malawi, and establishing a new regulator for water and sewerage in Bulgaria. Another activity is developing a framework for multiyear electricity tariffs in the Indian state of Uttar Pradesh (box 2.1).

Other PPIAF activities have also supported legal, regulatory, and institutional reforms:

- In Nigeria an activity is taking advantage of the momentum from ongoing PPIAF-supported efforts

to privatize the Lagos State Water Corporation. To help develop an appropriate regulatory framework, this activity is assessing the reforms required to support the mandate of the Utility Charges Commission to set tariffs, oversee appeals processes, and define mechanisms for risk sharing by the public and private sectors. The federal government views the Lagos privatization as a pilot case with clear demonstration effects for other states. The follow-on work reinforces similar initiatives in the states of Kaduna and Ogun.

- In Argentina a PPIAF-funded study assessed public-private partnerships in roads, ports, and railways, looking at the systemic institutional issues that need to be addressed, many at the provincial level. The study identified problems in governance, the rule of law, and the enforcement of contractual obligations as the main impediments to investment in infrastructure. The work has not only helped to clarify the unfinished reform agenda, it has also served as a catalyst for government dialogue with the private sector.
- In the Economic Community of West African States (ECOWAS) a PPIAF activity is helping governments devise an approach for harmonizing their telecommunications strategies and, possibly, for developing a single telecommunications market. And in the Pacific Islands an effort was launched to design a regulatory mechanism and transaction framework for private participation in infrastructure for the entire region.



Box 2.1 Moving to multiyear electricity tariffs in India

A PPIAF study focusing on India and independent assessments by the Indian government had both concluded that choosing annual reevaluation of electricity prices can undermine efforts to privatize electricity distribution companies by creating uncertainty among potential investors about future earnings. That work has focused attention on how to move to tariff profiles that remain valid for several years—to improve investor certainty and thus facilitate privatization.

Moving to multiyear tariffs is not simple, however, and many of the practical concerns involved were raised in an issues paper in late 1999 by the Electricity Regulatory Commission of Uttar Pradesh. Still, the

commission seeks to develop multiyear tariffs in that state, and it requested policy and regulatory support from PPIAF to help address the concerns. The commission is working with consultants to develop a multiyear framework.

The consultants will review the feasibility of multiyear tariffs, especially from the viewpoint of information requirements, and explore different options for such tariffs with the commission. This work should lead to an appropriate tariff methodology and the regulations needed to put it into effect (ensuring a fair and transparent system) as well as a suitable system for monitoring compliance with the tariffs.



33%

INFRASTRUCTURE DEVELOPMENT STRATEGIES

Governments often seek advice on framing infrastructure development strategies that take full advantage of the potential offered by private sector involvement. PPIAF financed 20 activities to support the development of such strategies in fiscal 2001, including analytical studies on the options for private involvement and its potential benefits (see annex 1 for descriptions of all 20 activities).


A flagship PPIAF product in this area is the Country Framework Report. Prepared at the invitation of the country, these reports involve extensive consultations with a range of stakeholders (box 2.2). These discussions, combined with in-depth sector analyses, form the basis of a comprehensive review of the environment for private involvement in infrastructure. Each Country Framework Report seeks to:

- Describe and assess the status and performance of key infrastructure sectors.
- Describe and assess the policy, regulatory, and institutional environment for involving private owners and operators in these sectors.
- Through this process, assist policymakers in framing future reform and development strategies and assist potential private investors in assessing investment opportunities in infrastructure.

In fiscal 2001 work was under way on Country Framework Reports for Bangladesh, Cambodia, the Dominican Republic, Honduras, Mexico, and Senegal. Reports have been completed for India, Peru, the Philippines, Uganda, and Vietnam.

PPIAF has financed strategic advice on options for private involvement at both the national and the sub-national level, spanning a range of infrastructure sectors:

- In Ghana a two-phase study is exploring ways that the private sector, particularly small and medium-size enterprises, can improve access to water supply



Box 2.2 Country Framework Reports—creating an opportunity for dialogue



A Country Framework Report provides a comprehensive overview of a country's general environment for private participation in infrastructure. Based on this assessment, it then outlines recommendations and an action plan to help guide governments in putting in place the laws, policies, and institutions needed to attract private investment. While the final product—a published report—is important, PPIAF's experience reveals that the participatory process of preparing the report also yields benefits.

In Cambodia, for example, preparing the Country Framework Report involved four workshops with senior and mid-level government officials and many one-on-one meetings with domestic operators, local private firms, international investors, infrastructure users, and nongovernmental organizations. In Uganda a Web site invited comments from stakeholders and the general public, and the prime minister opened a high-level workshop, demonstrating the government's ownership of the report. In Mexico the draft report was used in briefing the new administration.

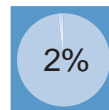
In Honduras the Country Framework Report was prepared entirely in Spanish, facilitating early and extensive in-country consultations. The Honduran report promises to be especially valuable for government policy formulation, as its timing coincides with upcoming national elections. All political parties will be briefed on early recommendations, which will help in defining realistic policy goals and increase the potential for improving the quality, efficiency, and accessibility of infrastructure services.

services for the poor in small towns and rural areas. The first phase is assessing the technical, financial, and management capacities of these enterprises and exploring the potential for increasing private involvement in the water sector. The second phase will develop plans to test and analyze innovative models for private provision of water in small towns and develop a broad capacity building strategy.

- In Morocco a study is defining the technical, financial, and institutional requirements for sustainable competition in freight and baggage handling operations in major airports. The study has recommended introducing competing private operators to provide handling and other airport services. As a result, a tender for airport ground handling services is expected to be launched in 2002.
- In Nicaragua a study looked at options for bringing electricity to rural areas remote from the grid, where small markets, rough terrain, and low household incomes deter private companies from doing business. The study developed a strategy for market-based options and public-private initiatives, using socioeconomic and willingness-to-pay surveys to determine tariffs, subsidy requirements, and investment cost

sharing. The study recommended a partnership in which the public and private sectors share the investment risks to ensure financial sustainability.

- Governments considering strategies for restructuring and privatizing railroads will benefit from the findings of an analysis of freight and passenger rail concessions in 13 countries over the past 10 years. The results show clear gains: the concessions have led to a dramatic reduction in user costs in these countries—as much as \$1 billion a year—and a significant increase in rail traffic, resulting in stable and growing railways. The concessions have also benefited economies, by reducing transport costs and the need for direct government subsidies—up to \$4 billion a year is reverting to national treasuries.

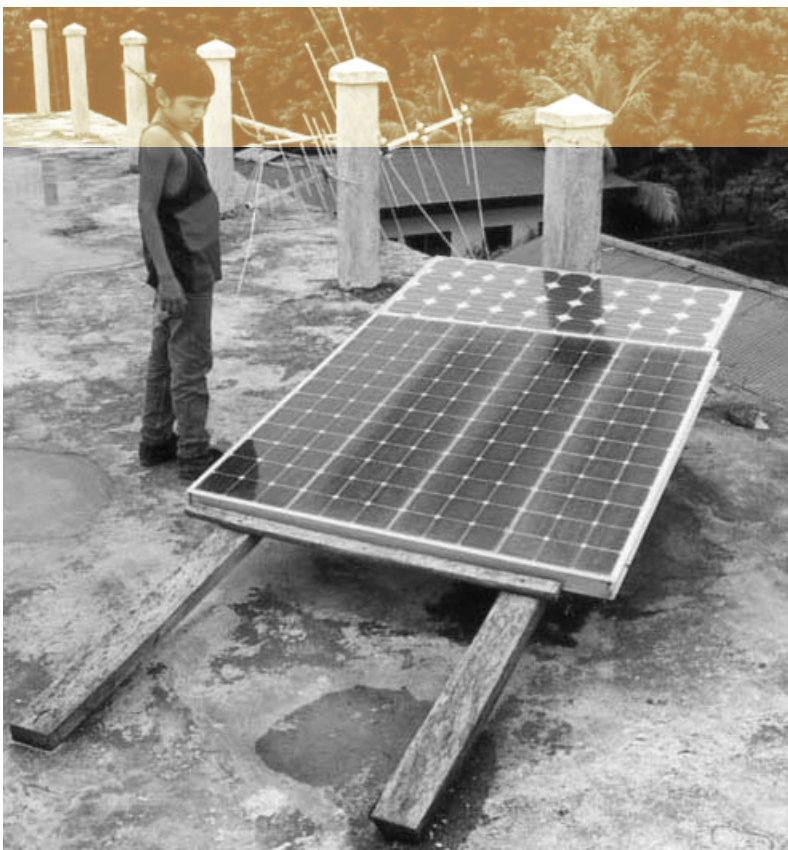


CONSENSUS BUILDING

Increasing private involvement and competition is widely acknowledged to help improve the quality of infrastructure services and people's access to them. But sustainable progress in this effort depends on the understanding and cooperation of a range of stakeholders—consumers, service providers, government officials, politicians, trade unions, and domestic and foreign investors. To engage these groups, PPIAF has supported consensus building activities ranging from seminars and workshops to study tours and public awareness campaigns. In fiscal 2001 it financed five such activities (see annex 1 for descriptions).

These activities included assistance to build broad-based consensus for reforms in several countries:

- In Guinea a workshop brought together policymakers, private operators, consumer representatives, and other members of civil society to discuss the challenges the country faces in basic services: electricity reaches only 1 percent of the rural poor, drinking water is available to only half the population, and telecommunications services are virtually





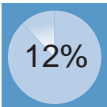
nonexistent in rural areas. The workshop led to an action plan for increasing the access of the poor to infrastructure services and reducing poverty.

- In southern Africa a regional forum was held under the auspices of the Southern Africa Development Community to discuss the potential for private involvement in transport and communications. Participants included private investors and regional government officials. Background papers on transport surveyed the issues in attracting private investment and evaluated project opportunities in the sector. The gathering attracted good press coverage, and the organizers also disseminated key messages through a dedicated Web site, a CD-ROM release, and a video with highlights of the forum. And an international campaign was launched to attract private investors to the region, drawing on the discussion at the forum.

of infrastructure services. PPIAF helps governments develop this capacity by assessing needs and providing detailed recommendations, sponsoring seminars and workshops on sector-specific themes, and underwriting initial investments in regional capacity building programs.

PPIAF approved 11 activities in fiscal 2001 whose primary focus was capacity building, ranging from an assessment of the institutional capacity of the water council in Zambia to major capacity building initiatives in Africa and South Asia (box 2.3; see annex 1 for a description of all 11 activities). Other examples of PPIAF support for building capacity within governments include the following:

- In India seminars provided policymakers with important knowledge on reforms in the water and sanitation sector, including how to set up public-private partnerships in large Indian cities and design water tariffs and subsidies. Seminar participants discussed lease options, private financing for infrastructure, designs for water and sanitation transactions to serve the poor, and designs for pro-



CAPACITY BUILDING

Developing country governments are often ill equipped to design and put in place arrangements for private provision



Box 2.3 Using regional approaches to strengthen regulatory capacity

poor subsidies for urban water services. Results are already apparent: the cities of Ahmedabad and Hyderabad are considering sector reforms to involve private operators.

- In the major cities of Tajikistan and Uzbekistan a PPIAF activity trained water utility officials in the skills needed to manage contracts with private firms for management, operations, and maintenance. The training included performance monitoring, transparent procurement processes, and study tours to neighboring countries where the private sector is active. The lessons learned will be disseminated to other cities in these two countries.
- In Latin America a water and sanitation conference in Buenos Aires, Argentina, shared best practice with policymakers, utilities, labor unions, and nongovernmental organizations and helped improve their understanding of the complexities and dynamics of urban poverty. Participants discussed strategies for ensuring affordable, efficient, and sustainable services and received advice on public policies, private incentives, contract design, and legal and regulatory instruments. Outputs from the conference include detailed proceedings and training materials targeted to policy and transaction advisers and other professionals involved in expanding private participation in the sector.

SUPPORT TO PIONEERING PROJECTS AND TRANSACTIONS

During this second year of operation PPIAF reviewed many proposals for support to activities that would proceed to specific transactions. In these instances PPIAF continued its support to the enabling environment for transactions, with the primary deliverable being policy, regulatory, and institutional reforms. Nevertheless, support to pioneering projects and transactions remains a critical deliverable under PPIAF's mandate and, together with the other five deliverables, is expected to have a positive influence on the enabling environment for future transactions.

Encouraged by the success of the South Asia Forum for Infrastructure Regulation (SAFIR), PPIAF also cosponsored the creation of the African Forum for Utility Regulation (AFUR), launched in 2000. Building on the lessons from SAFIR's development and taking into account the needs and characteristics of Africa, AFUR has adopted a different framework than SAFIR, one centered on fostering informal collaboration and exchanges among regulators.

AFUR acts as an umbrella structure for a range of capacity building and related activities. The first meeting—held in Nairobi, Kenya, in September 2000—drew 22 representatives from 15 countries. Events included a workshop to review the challenges facing African regulators. The second meeting—held in Accra, Ghana, in April 2001—attracted 30 representatives from 17 countries and included a workshop on consumer issues in utility regulation. In addition to regular meetings, AFUR has developed a Web site and a newsletter and is working to expand the range of its activities.



Box 2.4 The right tools for the job—a toolkit for port reform

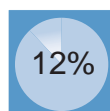
Developing country governments have shown growing interest in and commitment to increasing private financing and operation of port infrastructure. To help governments adopt appropriate strategies for reforming management and operations in the port sector, PPIAF has cofinanced the *Port Reform Toolkit*, along with the Netherlands, France, Finland, the United Nations Economic Commission for Latin America and the Caribbean, and the World Bank.

The toolkit explores options for private participation and their implications for the legal, regulatory, and operational relationships between public and private parties. It provides the background information, concrete examples, and tools and methods that policymakers and reformers need. While the toolkit's main audience is developing country officials responsible for port sector reform, the toolkit should also interest other policymakers, port consultants, and executives with shipping companies, port service companies, and companies dependent on port services.

The toolkit has eight modules, beginning with a decision framework that guides policymakers step by step through the process of reforming and reinventing port institutions. Other modules focus on legal tools, port regulation, the role of ports in a competitive world, the financial implications of port reform, port structures and ownership models, labor reform and related social issues, and how to get from concept to effective implementation.

The toolkit uses a variety of media, including printed text, Web links, and a CD-ROM combining graphics, narrative, mini case studies, and stylized presentations of decision processes.

In fiscal 2001 PPIAF funded 17 activities that, while classified under another primary deliverable, address issues closer to the transaction end of the chain of events that PPIAF supports. These range from support to the regulatory environment in Lagos, Nigeria, to enable the privatization of the Lagos state water utilities to proceed, to the development of model documents in Tajikistan and Uzbekistan for private provision of urban water supply.



IDENTIFICATION, DISSEMINATION, AND PROMOTION OF EMERGING BEST PRACTICES

To make sound decisions on involving the private sector, governments need ready access to reliable analysis of what works and what does not. And because notions of best practice evolve rapidly, the information must be current. PPIAF supports several kinds of activity to identify and disseminate emerging best practices worldwide, including “toolkits,” regional and international conferences, and case studies and model documents. In fiscal 2001 it supported nine activities focusing on emerging best practices (see annex 1 for descriptions).

Toolkits are a key product for PPIAF. These draw together best practice on issues related to private involvement, focusing on a single sector or on a theme that cuts across several sectors. Designed to be user-friendly, the toolkits offer sufficient detail and practical guidance for a diverse range of situations, objectives, constraints, and capacity levels. The toolkits are accessible through PPIAF's Web site (<http://www.ppiaf.org>).

During the fiscal year four toolkits were completed or begun:

- The *Port Reform Toolkit*, initially published on the Web, is a detailed resource designed to help governments increase private involvement in port operations (box 2.4).



Toolkit:

A guide for hiring and managing advisors for private participation in infrastructure



Box 2.5 Guiding policymakers through the procurement of advisory services

Launched in July 2001, *Toolkit: A Guide for Hiring and Managing Advisors for Private Participation in Infrastructure* provides comprehensive guidance on selecting and managing advisors for governments seeking to involve the private sector in infrastructure. Designed as a training and reference manual, the toolkit will help government officials select the best external advisers—economic consultants, regulatory specialists, transaction lawyers, investment bankers, and other specialists—and obtain the services they need throughout the privatization process.

The toolkit consists of a set of guidelines and templates (in a stand-alone document, on a CD-ROM, and in a downloadable file) to assist governments in tendering, contracting, and managing advisers. Its eight modules explore all the aspects of procuring advisory

services for private participation in infrastructure (PPI):

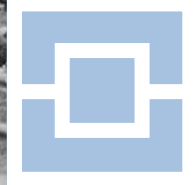
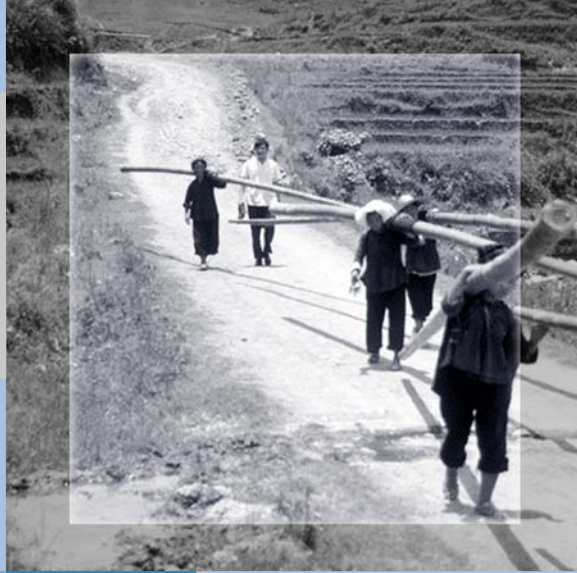
- Principles of procurement for PPI.
- Stages of the PPI process (and the corresponding requirements for technical assistance).
- Division of labor (among different types of firms and individuals).
- Funding agency requirements for procurement of PPI advisers.
- Alternative approaches to contracting advisers.
- Methods for setting evaluation criteria and selecting firms.
- Key elements of contractual design.
- Institutional requirements for managing PPI advisory services.

The toolkit, which includes a self-guided tour on CD-ROM, was cofunded by the World Bank.

- *Toolkit: A Guide for Hiring and Managing Advisors for Private Participation in Infrastructure* is a comprehensive guide for governments on the full range of issues in selecting and managing advisers for privatization in infrastructure (box 2.5).
- The *Toolkit for Public-Private Partnerships in Highways*, largely completed in fiscal 2001 but due to be published in late 2001, will provide hands-on advice to policymakers on contractual, regulatory, and funding options for engaging the private sector in developing, operating, and maintaining roads.
- The *Toolkit on Labor Issues Related to Privatization*, on which work was launched during the fiscal year, will build on recent experiences to provide practical tools for dealing with such issues as the timing and sequencing of labor restructuring, the design of severance packages, and the treatment of pension liabilities.

PPIAF also fostered the exchange of best practice by sponsoring several international conferences and similar gatherings during the fiscal year. A multiphase, multicountry seminar series shared best practice and generated new thinking about how the poor can gain from water and sanitation reforms. Held in Paris, the initial seminar drew 30 participants with expertise in transactions, regulation, and urban development. The seminar's findings emphasized the importance of explicitly addressing the needs of the poor in contracts and legal and regulatory instruments. The second phase of dissemination involved formal presentations of the seminar findings to a variety of international technical gatherings. The last phase will produce a compendium of key thinking, case studies, model terms of reference, and best practice guidelines. This dissemination strategy has already produced dividends: the seminar findings have influenced the design of transactions in Ghana, India, Nepal, and South Africa.





three

SECTION



Governance Structure

PPIAF is governed by a Program Council made up of representatives of donors that contribute resources to PPIAF (figure 3.1). (PPIAF remains open to contributions from official donors, international financial institutions, and other official agencies.) An independent Technical Advisory Panel, made up of leading international experts in different aspects of private provision of infrastructure, supports the Program Council. A Program Management Unit manages PPIAF in accordance with a general strategy and the annual work programs approved by the Program Council. This governance structure is designed to ensure the quality of the activities of PPIAF and its accountability to participating donors.

THE PROGRAM COUNCIL

As provided in the PPIAF program charter dated May 2001, as amended July 2000 and May 2001, membership in the Program Council remains open to eligible organizations contributing a minimum of \$250,000 a year to PPIAF's Core Fund. As of June 30, 2001, there were 12 members (table 3.1). Members can also contribute to Non-Core Funds, whose use is restricted to particular themes, activities, or regions. This fiscal year PPIAF welcomed several new donors: France, Germany, the Netherlands, Sweden, and the Asian Development Bank.

The Program Council meets once a year to review the strategic direction of the PPIAF program, its achievements, and its financing requirements. The council, chaired by the World Bank's vice president for private sector development and infrastructure, is responsible for:

- Considering and defining PPIAF policies and strategies.
- Approving the annual work program and financial plan.
- Reviewing PPIAF's performance, including selecting activities for ex post evaluation by the Technical Advisory Panel.
- Overseeing the Technical Advisory Panel and Program Management Unit.

On May 10–11, 2001, the Program Council held its second annual meeting in Montreux, Switzerland, hosted by the State Secretariat for Economic Affairs. The meeting included an overview of program operations; a report on selected PPIAF activities by beneficiary government representatives from Azerbaijan, Kenya, and Nepal; a presentation by the Technical Advisory Panel of its ex post evaluation of selected activities; and a decision by the donors to extend the PPIAF program for another three years, until June 2005.

Figure 3.1 Organizational structure of PPIAF

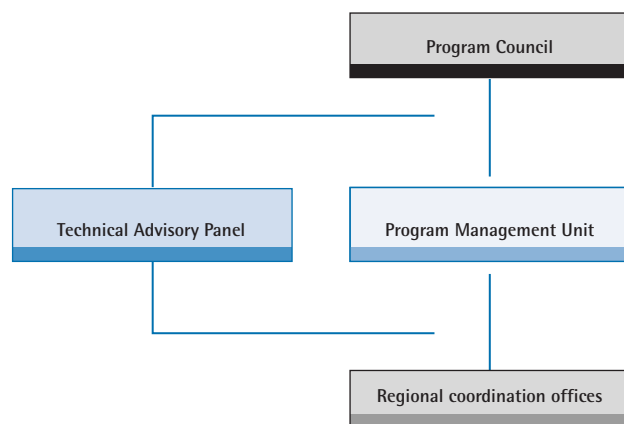


Table 3.1 Members of the PPIAF Program Council as of June 30, 2001

BILATERAL

- Canada (Canadian International Development Agency)
- France (Ministry of Foreign Affairs)
- Germany (BMZ)
- Japan (Ministry of Finance)
- The Netherlands (Ministry of Foreign Affairs)
- Norway (Norwegian Agency for Development Cooperation)
- Sweden (Swedish International Development Cooperation Agency)
- Switzerland (State Secretariat for Economic Affairs)
- United Kingdom (Department for International Development)

MULTILATERAL

- Asian Development Bank
- United Nations Development Programme
- World Bank

The meeting was preceded by a half-day workshop on May 10 that focused on the provision of small-scale rural infrastructure and on labor issues arising in infrastructure privatization. Presentations were made by donor representatives as well as by government officials and private operators.

THE TECHNICAL ADVISORY PANEL

The members of the Technical Advisory Panel were selected on the basis of their expertise in matters relating to private involvement in infrastructure in developing countries. They were appointed on November 30, 2000, by the Program Council chair after consultation with Program Council members.

The Technical Advisory Panel is responsible for:

- Providing advice, at the request of the Program Council, on issues relating to private involvement in infrastructure in developing countries.
- Reviewing and commenting on the PPIAF strategy as reflected in draft annual work programs prepared by the Program Management Unit.
- Evaluating the impact of the PPIAF annual work program through ex post evaluation of selected activities.

The panel met twice this past year, holding an inaugural meeting in Washington, D.C., on November 30, 2000, and a second meeting on May 9, 2001, in Montreux, Switzerland. The panel also participated in the second annual meeting of the Program Council in Montreux (box 3.1).

The panel conducted ex post evaluations of six completed PPIAF activities, selected to reflect the diversity of regions, sectors, funding levels, and types of activities and taking into account ease of replication for future PPIAF activities:

- Uganda Country Framework Report.
- South Asia Forum for Infrastructure Regulation.
- Cambodia Private Provision of Water Services.
- Algeria Telecommunications Policy Reform.
- Conference on Public-Private Infrastructure and the Poor.
- Conference on Private Infrastructure and Regulatory Risks.

THE PROGRAM MANAGEMENT UNIT

The Program Management Unit is responsible for the day-to-day management of PPIAF in accordance with the general strategy and the annual Indicative Work



Box 3.1 Directions forward—recommendations of the Technical Advisory Panel

At the second annual meeting of the Program Council the Technical Advisory Panel presented the results of its ex post evaluation of six PPIAF activities and provided inputs into the fiscal 2002 Indicative Work Program, presented at the meeting by the Program Management Unit.

The panel's ex post evaluation report drew lessons for the Program Council and Program Management Unit on ways to improve the unit's processes and actions and pointed to possible areas to channel future support. It used the results of the six activities to both illustrate the laudable successes of a relatively young organization and identify future actions and areas of concern. In particular, the report pointed out that PPIAF is in a strong position to ensure that stakehold-

ers often not given a voice—such as consumers, operators, and investors—participate in delivering activities.

In recommending next steps, the panel suggested that the Program Council and Program Management Unit consider instituting more transparent and systematic collection of information to showcase the impact of PPIAF interventions. It recommended that the Program Management Unit streamline systems for task managers to complete reports, and require government and stakeholder counterparts to report the impacts of activities. And it urged the unit to improve the dissemination of information from its activities—by better publicizing the availability of the information and putting more of it on the PPIAF Web site.

Program approved by the Program Council (see annex 2 for the fiscal 2001 Indicative Work Program). The unit remains small, focusing on administering the PPIAF program rather than delivering activities. PPIAF relies extensively on external consultants to deliver activities, following World Bank guidelines on procurement.



The Program Management Unit's key responsibilities include:

- Reviewing proposals for PPIAF assistance in accordance with the criteria and process approved by the Program Council (for activities funded from the Core Fund) or by the relevant contributors (for activities funded from Non-Core Funds).
- Arranging for delivery of PPIAF programs and activities.
- Providing secretariat services to the Program Council and Technical Advisory Panel.
- Maintaining effective relationships with contributors, recipient governments, the private sector, and other stakeholders.
- Proposing and administering the PPIAF work plan

- and budget and managing the disbursement of funds.
- Overseeing the operations of the field-based regional coordination offices.

THE REGIONAL COORDINATION OFFICES

With the approval of the Program Council, PPIAF has established three field-based regional coordination offices to assist in executing the PPIAF work program—in Nairobi, Kenya; Pretoria, South Africa; and Singapore. The regional coordinators selected for these offices report to the program manager.

The regional coordination offices have the following key responsibilities:

- Identifying opportunities for PPIAF assistance, supporting local requests for PPIAF interventions, and tailoring assistance strategies to local priorities and conditions.
- Working with recipient governments and representatives of contributors, international financial institutions, and other official agencies to promote effective coordination of advisory activities.
- Providing liaison with private sector representatives to ensure that their perspectives are reflected in PPIAF advice and activities.
- Assisting in the supervision of PPIAF activities.
- Fostering contacts and good working relationships with key government officials and representatives of donor, multilateral, and investor communities.

EVALUATION AND APPROVAL PROCEDURES

PPIAF's evaluation and approval procedures are designed to promote timely and efficient review of all proposals submitted. These procedures are based on the guidelines and criteria set out in the program charter, as amended (see box 3.2 for a summary of the criteria, and annex 3 for a description of the evaluation and approval process).



Box 3.2 Criteria for approving proposals for PPIAF assistance

CONSISTENCY WITH PPIAF MISSION

All activities must be consistent with PPIAF's overarching objective of helping to eliminate poverty and achieve sustainable development.

GOVERNMENT COMMITMENT

Country-specific activities may be undertaken only where there is clear evidence of government commitment to the activity. The government must approve of the proposed activity in writing. For multicountry activities designed to directly benefit a small number of easily identifiable countries, the relevant governments also must approve in writing. For multicountry activities with more diffuse beneficiaries, similar approvals are not required.

DONOR COORDINATION

PPIAF is a multidonor facility, and the activities it supports must be undertaken in a way that promotes effective coordination with the activities of official donors. In particular, country-specific activities may be undertaken only if the Program Management Unit is satisfied that the proposed activity does not conflict with programs or activities being undertaken by the World Bank Group, by other PPIAF contributors, or, to the extent that this is easily verifiable, by other donors.

ADDITIONALITY

PPIAF is intended to result in a net additional flow of resources to the activities it supports. Accordingly, funding for a proposed activity should not be more conveniently available from other sources, including loans from international financial institutions, grants from other programs, or a government's own resources.

COFINANCING

While PPIAF can pay up to 100 percent of the costs of an eligible activity, cofinancing from the recipient government and other sources is encouraged. Indeed, it is particularly important to indicate any estimates of government cash or in-kind contributions.

VALUE FOR MONEY

PPIAF activities should aim to ensure value for money, including by adopting the lowest-cost strategies consistent with appropriate standards of quality.

QUALITY ASSURANCE

Applications for PPIAF funding should contain indicators against which the quality of the proposed activity can be assessed. Larger activities should usually include appropriate consultative and quality review mechanisms.

REGIONAL AND SECTORAL BALANCE

Subject to the work program approved by the Program Council, activities financed from the Core Fund should maintain a reasonable balance across developing regions and across eligible infrastructure sectors.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

Where an activity to be supported by PPIAF is expected to have significant potential adverse environmental or social consequences, appropriate measures must be adopted to ensure an objective and transparent assessment of those potential consequences.





four

SECTION



Finances and Resource Mobilization

PPIAF has an innovative financing structure to complement its six strategic deliverables and its focused governance and organizational structure.

FUNDING

PPIAF maximizes flexibility for contributors through a two-tier financial structure: a *Core Fund* and *Non-Core Funds*. The Core Fund consists of untied funds that can be used for any activity falling within PPIAF's approved work program as well as for governance costs and program activities. All contributions to PPIAF are designated for the Core Fund unless otherwise indicated. Core Fund contributions are not subject to donor restrictions, such as on the nationality of consultants hired for PPIAF-funded activity. Core contributions from regional development banks, however, can be tied to the banks' operational region where required by their statute.

Under the PPIAF program charter, membership is open to eligible organizations that contribute a minimum of \$250,000 a year to PPIAF's Core Fund.

Non-Core Funds are subject to donor restrictions relating to themes, activities, or regions. A donor may establish a Non-Core Fund after making the minimum contribution to the Core Fund and with the consent of the Program Management Unit. Three donors have established Non-Core Funds: Japan (for East Asian countries), Switzerland (for selected countries in Europe and Central Asia), and the United Kingdom (for selected countries, including in Asia and Africa).

Contributions to PPIAF are primarily in the form of cash. Contributions of in-kind resources may also be considered in limited cases.

Each contributor enters into a trust fund agreement with the World Bank Group covering its contributions to PPIAF. The World Bank Group recovers a small administrative charge for costs associated with administering trust funds.

MEMBER CONTRIBUTIONS

From the inception of PPIAF to June 30, 2001, nine donors—Canada, France, Japan, Norway, Sweden, Switzerland, the United Nations Development Programme (UNDP), the United Kingdom, and the World Bank—contributed a total of \$33.4 million to PPIAF (table 4.1). Together with three other donors—the Asian Development Bank (ADB), Germany, and the Netherlands—these donors had pledged about \$60 million as of June 2001.



Table 4.1 Member contributions to PPIAF: confirmed pledges and receipts as of June 30, 2001
(US\$ thousands)

Summary

Type of funding	Pledges	Receipts
Core	33,626	27,681
Non-Core	26,266	5,751
Total funding	59,892	33,432

Core funding

Member	Pledges	Duration ^a	Receipts
ADB	500 ^b	January 2001–December 2001	–
Canada	500	July 1999–June 2001	500
France	266	July 2000–June 2001	266
Germany	500	January 2001–December 2002	–
Japan	6,473	July 1999–June 2002	5,473
Netherlands	500	July 2001–June 2002	–
Norway	750	July 1999–June 2002	500
Sweden	267	July 2000–June 2001	267
Switzerland	1,223	July 1999–June 2002	603
UNDP	In-kind ^c	From July 1999	n.a.
United Kingdom	13,647	July 1999–June 2002	13,647
World Bank	9,000	July 1999–June 2002	6,425
Total Core funding	33,626		27,681

Non-Core funding

Member	Pledges	Duration ^a	Receipts
Japan	1,608 ^d	March 2001–June 2002	608
Switzerland	3,066 ^e	July 1999–June 2005	1,206
United Kingdom	21,592 ^f	July 1999–June 2002	3,937
Total Non-Core funding	26,266		5,751

– Confirmed but not received as of June 30, 2001.

n.a. Not applicable.

Note: Some differences occur among the tables in this section because amounts are pledged in own currency and then converted to U.S. dollars at the time of transfer.

a. Duration refers to the period for which the pledge amount is allocated.

b. Including in-kind contributions of \$250,000.

c. UNDP's in-kind contribution—the accommodation for the field-based regional coordination offices in Nairobi, Kenya; and Pretoria, South Africa—is not included in the total.

d. Targeted to countries in East Asia.

e. Targeted to countries in Europe and Central Asia.

f. Targeted to countries including in Asia and Africa.

EXPENDITURES

PPIAF's expenditures fall into three main categories: program activities, program administration, and regional coordination offices. In fiscal 2001 (July 1, 2000–June 30, 2001) expenditures on these activities reached \$9.32 million (table 4.2). Of the \$18.68 million approved for program activities during this period, \$6.87 million (37 percent) had been disbursed at the end of June 2001, up from \$3.85 million in fiscal 2000—a 78 percent increase (table 4.3). Expenditures of the Program Management Unit stayed at the same level as in the previous year, while those of the regional coordination offices rose from \$45,000 in fiscal 2000 to \$973,000 as a result of the full operationalization of all such offices (table 4.4).

Table 4.2 PPIAF expenditures for program activities and administration, fiscal 2001
(US\$ thousands)

Expense category	Expenditures
Program activities	6,865
Program Management Unit	1,480
Regional coordination offices	973
Total	9,318

Table 4.3 PPIAF program activity expenditures, fiscal 2001
(US\$ thousands)

Expense category	Expenditures
Consultant fees and contractual services	5,307
Travel	664
Staff costs	743
Other expenses (overhead)	151
Total operational and overhead expenses	6,865

Table 4.4 PPIAF Program Management Unit and regional coordination office expenditures, fiscal 2001
(US\$ thousands)

Expense category	Expenditures
Program Management Unit core administration ^a	847
Technical assessments of activities ^b	65
Consultant fees and contractual services ^c	146
Travel ^d	229
Other expenses (overhead) ^e	193
Regional coordination offices ^f	973
Total operational and overhead expenses	2,453

a. Includes Program Management Unit staff costs (such as administration, evaluation of proposals, and governance and coordination of donor relations, the Technical Advisory Panel, and annual meetings).

b. Includes fees paid to professionals to assess the technical viability of proposals.

c. Includes fees of short-term consultants (to prepare the donor database, perform graphic design, and the like), an honorarium for a Technical Advisory Panel member, and expenses of participants in annual meetings and retreats.

d. Includes travel expenses of the Program Management Unit staff, interviewees, and participants in annual meetings and retreats.

e. Includes office space, supplies, communications, computers, staff training, and Program Management Unit equipment.

f. The United Kingdom funds the staff and operational costs of the two offices in Africa and shares these costs for the Singapore office equally with Japan. The UNDP provides the accommodations for the two offices in Africa (in Nairobi, Kenya; and Pretoria, South Africa) as part of its in-kind contribution to PPIAF, while the government of Singapore provides the office space for the regional office in that country.

CASH POSITION

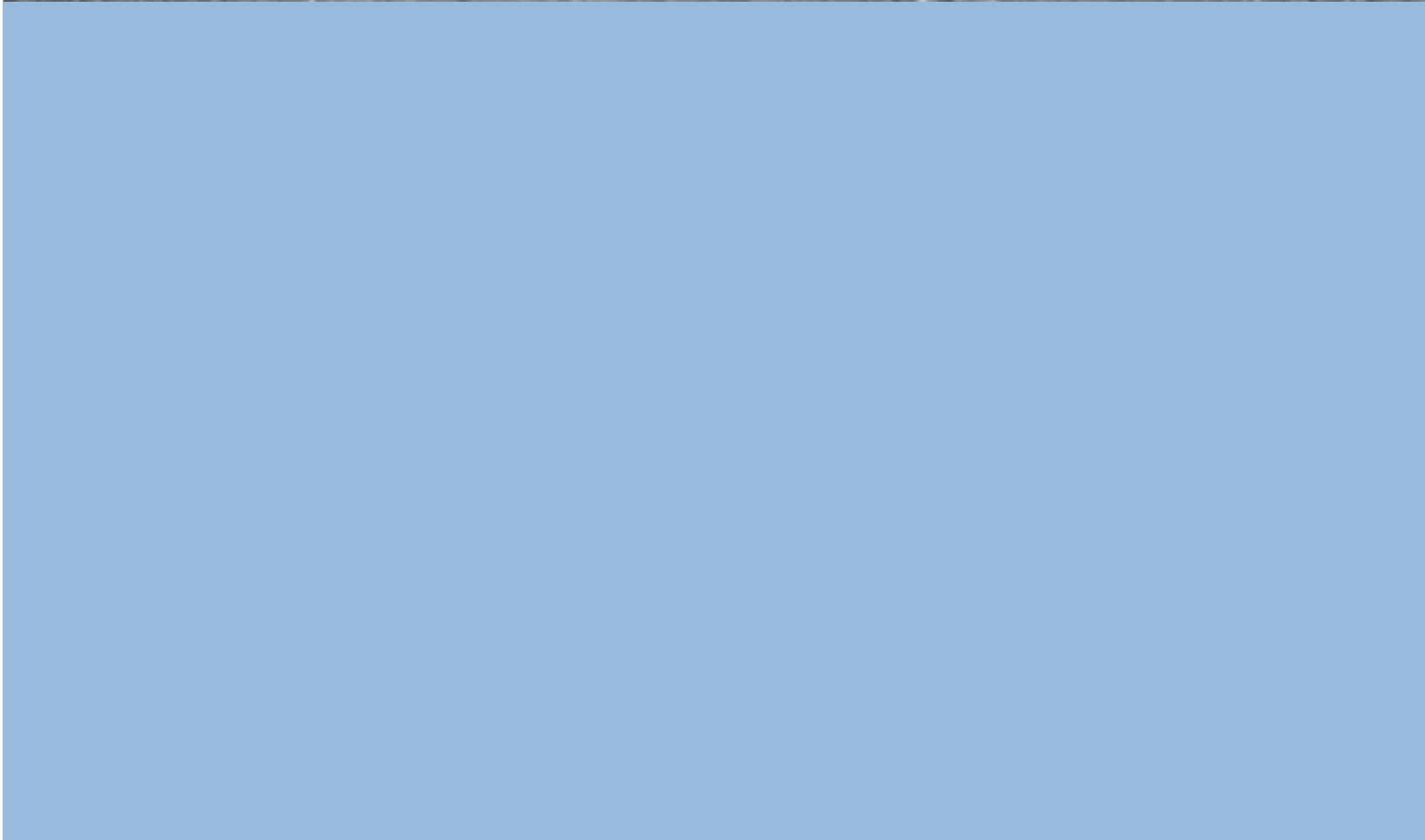
From PPIAF's total receipts of \$33.4 million since its inception, \$5.4 million was disbursed in fiscal 2000, and another \$9.3 million in fiscal 2001. The remaining \$18.8 million was available for funding activities approved during the fiscal year. Of this \$18.8 million, about \$6.6 million had been committed by signed contracts, and the remaining \$12.2 million will be used to finance outstanding committed consulting fees (table 4.5). Even with this additional funding, on June 30, 2001, there was a shortfall in short-term cash available for fiscal 2001 approved activities. However, procedures are in place to ensure that the contributions to PPIAF are replenished by donors to cover all the required disbursements. Replenishments from contributions pledged by donors take about a month to process.

Table 4.5 PPIAF cash position as of June 30, 2001
(US\$ thousands)

Receipts	33,432
Less previous year's expenditures	5,355
Less current year's expenditures	9,318
Subtotal available cash	18,759
Less commitments under reported signed contracts	6,599
Total available funds	12,160

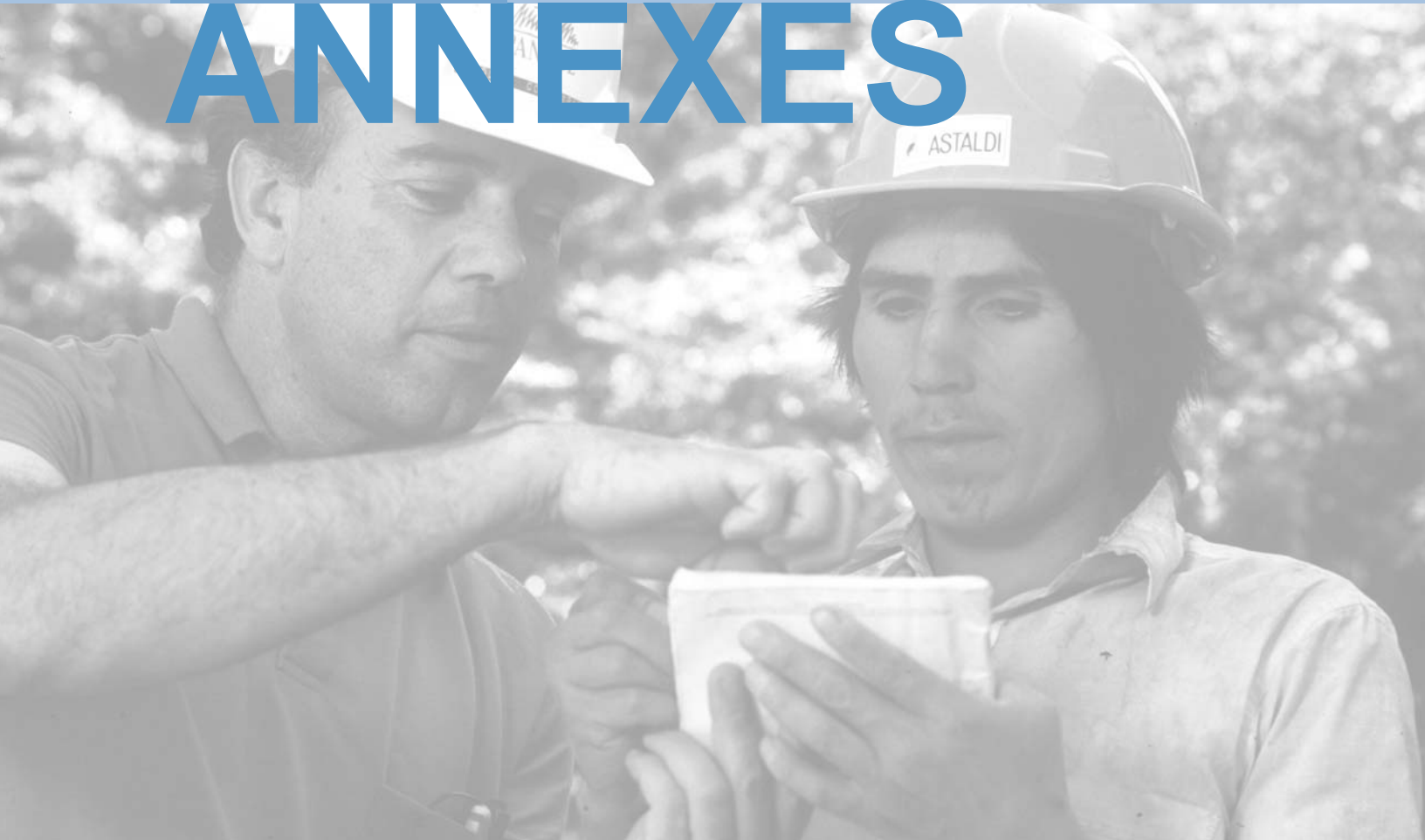
SINGLE AUDIT PROCESS

The World Bank Group has instituted an annual “single audit” exercise for all trust funds. As part of this exercise the PPIAF program manager signs a trust fund representation letter as to the correctness and completeness of the financial process for all PPIAF trust funds. The task manager for each approved activity is required to confirm to the program manager in writing that he or she has complied with all the terms set forth in the PPIAF award letter, has exercised due diligence with respect to the administration, management, and monitoring of the funds awarded for the activity, and ensures that all expenses and disbursements are in accordance with World Bank procurement and administrative guidelines, which the PPIAF donors have agreed to follow.





ANNEXES



Annex 1 Approved PPIAF Activities for Fiscal 2001

Table A1.1 Approved activities for fiscal 2001 by country and PPIAF deliverable

CORE FUNDS			
Sub-Saharan Africa			
Activity	Deliverable	Approved funding	Target completion date
GABON			
<p>Telecommunications Guidebook Reviewing the industry structure and legal and regulatory environment for telecommunications, assessing the tariff issues involved in opening the market to new telecommunications providers, and preparing and disseminating a guidebook to assist telecommunications regulators in this country and others in Africa.</p>	Policy, regulatory, and institutional reforms	\$72,000	December 2001
GUINEA			
<p>Country Framework Report Update and Consensus Building Organized a seminar in Conakry to assist the government in building a consensus on policies that would improve private participation in the utility and transport sectors and prepared a detailed action plan for reducing the share of Guineans living under the poverty line (with annual per capita consumption of less than \$300) from 40 percent to 30 percent by 2010.</p>	Consensus building	\$75,000	September 2002
NIGERIA			
<p>Regulatory Framework for Introducing Private Participation in the Lagos State Water Utilities Establishing a regulatory framework for privatizing the water sector through a concession contract that transfers more financial and commercial risk to the private sector.</p>	Policy, regulatory, and institutional reforms	\$461,251	December 2001
NIGERIA			
<p>Strategy for Market Restructuring and Private Participation in the Transmission and Distribution of Downstream Gas Developing a strategy to increase private participation in the gas sector by reviewing the domestic market structure and identifying reforms needed to attract private investors and providers.</p>	Infrastructure development strategies	\$496,400	October 2002
SOUTH AFRICA			
<p>Introduction of Natural Gas in Low-Income Areas Preparing a study to identify commercial, institutional, and pricing features needed to attract private finance, substantially reduce emissions, and introduce the use of natural gas in low-income areas through the participation of small and medium-size enterprises.</p>	Policy, regulatory, and institutional reforms	\$525,000	February 2002
SUB-SAHARAN AFRICA			
<p>African Forum for Utility Regulation, Phase 1 Financed a high-level meeting of African utility regulators in Nairobi, Kenya, in September 2000 to discuss regional trends in utility regulation, challenges faced by regulators, and opportunities for expanding regional cooperation among regulators. The meeting established the African Forum for Utility Regulation (AFUR) as a forum for regulators to exchange information and lessons of experience and as a conduit for supporting capacity building efforts.</p>	Capacity building	\$75,000	Completed
SUB-SAHARAN AFRICA			
<p>African Forum for Utility Regulation, Phase 2 Financed a second meeting of African utility regulators, in Accra, Ghana, in April 2001, that enabled the regulators to continue their exchanges and discuss consumer issues in depth. Participants identified opportunities for expanding cooperation among the region's utility regulators, the need to ensure that stakeholders participate in regulatory processes, and ways of doing so. Participants also adopted a work program for AFUR, including expanding coverage to North Africa.</p>	Capacity building	\$75,000	Completed

CORE FUNDS

Sub-Saharan Africa

Activity	Deliverable	Approved funding	Target completion date
SUB-SAHARAN AFRICA			
<p>Harmonization of Telecommunications Policies in ECOWAS Strengthening the capacity of the Economic Community of West African States (ECOWAS) to liberalize its telecommunications market, building consensus around a liberalization strategy to promote private participation in the sector, and designing an optimal road map for establishing a harmonized telecommunications market in ECOWAS.</p>	Policy, regulatory, and institutional reforms	\$279,000	September 2002
SUB-SAHARAN AFRICA			
<p>Private Participation in Liquefied Natural Gas Import Terminals in Sub-Saharan Africa Assessing demand for liquefied natural gas (LNG) in Sub-Saharan markets, including Côte d'Ivoire, Ghana, Kenya, Senegal, and Tanzania, and fostering a larger role for the private sector in developing regional trade in LNG.</p>	Infrastructure development strategies	\$62,000	January 2002
SUB-SAHARAN AFRICA			
<p>Southern Africa Development Community Investors and Donors Forum for Transport and Communications Organized a forum for regional and international stakeholders, donors, and investors, and provided a comprehensive overview at the forum of the potential for and attractiveness of investing in transport and related activities in southern Africa.</p>	Consensus building	\$75,000	Completed

CORE FUNDS

East Asia and Pacific

CHINA			
<p>Options for Private Participation in Water and Sanitation Services in Chongqing Exploring options for private participation in water supply and sewerage services in the municipality of Chongqing. The municipality's capital (also Chongqing) serves as a pilot case, showing the potential for improving the utility's operational efficiency and the quality of service while reducing costs.</p>	Infrastructure development strategies	\$380,000	March 2002
CHINA			
<p>Privatization Strategy for Competitive Electricity Generation at the Provincial Level Developing a market-led strategy with stakeholders (consumer groups, government entities, and the private sector) focusing on divesting state-owned power and generation assets at the provincial level and creating independently owned firms with an expanded share of the private capital in the sector.</p>	Policy, regulatory, and institutional reforms	\$620,000	March 2002
CHINA			
<p>Regulatory and Institutional Reform in the Telecommunications Sector Reviewing the market, policy, and regulatory environment for greater private participation in telecommunications; identifying sustainable reforms; conducting a study tour of countries that are leaders in reform; drafting policy options and a reform agenda for consideration by the national government; and presenting the options at workshops for stakeholders.</p>	Policy, regulatory, and institutional reforms	\$295,000	December 2001
INDONESIA			
<p>Regulatory Framework for Water Supply Concessions in Pekanbaru Assisting the Pekanbaru city government in developing a regulatory framework that will use water service and financial benchmarks for monitoring performance under a transparently and competitively bid water supply concession, and drafting new legislation for an independent regulatory body, as well as the implementing rules and statutes.</p>	Policy, regulatory, and institutional reforms	\$75,000	December 2002

CORE FUNDS

East Asia and Pacific

Activity	Deliverable	Approved funding	Target completion date
MONGOLIA			
<p>Strengthening Telecommunications Regulation Strengthening the government's regulatory capacity in telecommunications so that it can manage increased private participation in the sector, and reviewing tariff regimes and the legal and regulatory framework with a view to supporting sustainable market-based competition that would benefit the poorest consumers.</p>	Policy, regulatory, and institutional reforms	\$274,000	June 2002
THAILAND			
<p>Modernization of Radio Frequency Management Assisting the Ministry of Transport and Communications in improving the management of radio frequency through increased private participation in the sector, and outlining adequate systems and procedures to support the National Telecommunications Commission as an independent regulator.</p>	Capacity building	\$197,000	December 2001
THAILAND			
<p>Restructuring and Private Participation in the Railway Sector Preparing a railway privatization strategy, providing technical advice to the State Rail of Thailand (SRT), and developing a sectoral framework to support an independent regulatory body.</p>	Infrastructure development strategies	\$630,000	October 2002
VIETNAM			
<p>Establishing a Legal and Regulatory Framework for Downstream Gas Assessing the proposed legal and regulatory framework for the gas sector, which is designed to support optimal performance in the downstream gas market, including its provisions to establish an independent economic regulator.</p>	Policy, regulatory, and institutional reforms	\$396,002	June 2002
PACIFIC ISLANDS			
<p>Strategy for Private Participation in Infrastructure in Small Island Countries Evaluated the current performance of private participation in infrastructure (PPI) in the region, reviewed emerging best practices in regional regulatory mechanisms for PPI, and devised PPI models suited to small island countries.</p>	Policy, regulatory, and institutional reforms	\$75,000	Completed

CORE FUNDS

Europe and Central Asia

BOSNIA AND HERZEGOVINA			
<p>Establishing a Legal and Regulatory Framework in the Gas Sector Preparing a legal framework to support private participation in the gas sector based on an assessment of sector laws at different levels of government, facilitating consensus building and discussions among stakeholders at different levels of government, and drafting complementary gas laws at subnational levels to support increased private participation.</p>	Policy, regulatory, and institutional reforms	\$327,620	July 2001
BULGARIA			
<p>Water and Sewerage Regulatory Framework Preparing a regulatory framework to support an independent regulator for the water sector, reviewing existing laws, and drafting legislation to set up an independent regulatory body, along with implementing rules and regulations, for consideration by the legislature.</p>	Policy, regulatory, and institutional reforms	\$350,000	December 2001
KOSOVO			
<p>Private Participation in Water Supply and Sanitation in Gjakove-Rahovec Assisting the Gjakove-Rahovec area in improving its water supply and sanitation services through a multiyear private management contract designed to increased access for the poor.</p>	Policy, regulatory, and institutional reforms	\$158,000	December 2001

CORE FUNDS

Europe and Central Asia

Activity	Deliverable	Approved funding	Target completion date
TURKEY			
<p>Power Sector Reform Assisting in the establishment of an independent regulatory agency for the electricity sector and drafting corresponding secondary legislation under the Electric Energy Market Bill covering licensing, tariff setting, balancing and settlement codes, trading contracts, and appeals.</p>	Policy, regulatory, and institutional reforms	\$501,845	July 2002

CORE FUNDS

Latin America and the Caribbean

BRAZIL			
<p>Privatization of the Water Utility in Recife Providing privatization specialists to assist the state government of Pernambuco in privatizing its water and sewerage utility, Compesa.</p>	Policy, regulatory, and institutional reforms	\$220,000	Canceled at the government's request
COLOMBIA			
<p>Financial Derivatives for the Wholesale Electricity Market Supporting the development of options, futures contracts, and financial derivatives to hedge against price volatility in the wholesale electricity market, with computer simulations used to show the effects of alternative trading rules.</p>	Policy, regulatory, and institutional reforms	\$270,000	March 2002
COLOMBIA			
<p>Options for Regulating the Water and Sanitation Sector Sponsoring a consultative meeting between the government and stakeholders to develop a regulatory framework for the water and sanitation sector, identifying key issues and best-practice options, and formulating an action plan that places increasing reliance on public-private partnerships.</p>	Consensus building	\$57,500	September 2001
EL SALVADOR			
<p>Independent Owner-Operators in Infrastructure Developing a replicable program for engaging independent owner-operators to provide municipal infrastructure—in the water, sanitation, and electricity sectors—and providing advice on guidelines for reform in these sectors.</p>	Infrastructure development strategies	\$280,000	November 2002
PARAGUAY			
<p>Regulatory Framework for Toll Road Concessions Providing policy advice for a toll road concession program and preparing toll road regulations and sample bid documents.</p>	Policy, regulatory, and institutional reforms	\$75,000	December 2001
PARAGUAY			
<p>Strategic Options for the Public Water Utility Assisting the government in developing strategic options for the water and sanitation sector and developing consensus and support for concessioning the public water utility, Corposana.</p>	Consensus building	\$75,000	October 2001
PERU			
<p>Country Framework Report Update, Roundtable, and Dissemination Updating the Country Framework Report prepared in October 1999, organizing a roundtable conference, formulating next steps, and disseminating findings.</p>	Infrastructure development strategies	\$62,250	December 2001
LATIN AMERICA AND THE CARIBBEAN			
<p>Developing a Regional Telecommunications Regulator for the Caribbean Developing an approach to extending membership in the Eastern Caribbean Telecommunications Authority to other countries in the Caribbean.</p>	Policy, regulatory, and institutional reforms	\$75,000	October 2001

CORE FUNDS

Latin America and the Caribbean

Activity	Deliverable	Approved funding	Target completion date
LATIN AMERICA AND THE CARIBBEAN			
<p>Improving the Capacity to Implement Water Sector Reforms in Latin America Organizing a seminar for representatives of governments, utilities, labor unions, and nongovernmental organizations to increase the understanding of private provision of water services and exchange best practices in poverty-focused reforms and sector management.</p>	Capacity building	\$50,000	February 2002
LATIN AMERICA AND THE CARIBBEAN			
<p>Initiative to Institutionalize Infrastructure Market Reforms in Latin America Supported a conference to launch a regional initiative of the Institute of the Americas on institutionalizing market reforms in Latin America. Conference papers covered such issues as regulation and policy reform in water, power, transport, and telecommunications.</p>	Consensus building	\$75,000	Completed
LATIN AMERICA AND THE CARIBBEAN			
<p>Lessons from Latin American Infrastructure Concessions Constructing a database on infrastructure concessions in the region, determining the effect of concession designs and regulatory frameworks on the incidence of renegotiation, and providing policy recommendations for concession design and regulation.</p>	Emerging best practices	\$354,000	July 2002
LATIN AMERICA AND THE CARIBBEAN			
<p>Private Investment in Andean Community Border Areas Undertaking a diagnostic review of the private investment in infrastructure in the Andean border areas, proposing common regional policies and strategies, and identifying regulatory options.</p>	Infrastructure development strategies	\$75,000	December 2002

CORE FUNDS

Middle East and North Africa

ALGERIA			
<p>Telecommunications Sector Investors Conference Organized an international investors conference to present the country's Telecommunications Sector Reform Program, which features an independent regulator and transparent and competitive bidding, and to announce information on the tendering of its mobile licenses.</p>	Capacity building	\$35,200	Completed
JORDAN			
<p>Private Participation and Regulatory Reform in the Water and Sanitation Sector Preparing feasibility studies to explore options for privatizing the water sector and organizing seminars, workshops, and study tours to encourage policymakers to establish a regulatory commission to efficiently manage initiatives in private participation.</p>	Policy, regulatory, and institutional reforms	\$600,000	June 2002
MOROCCO			
<p>Airport Ground Handling Assessed the technical and economic feasibility of competition in ground handling in the Casablanca airport and other major Moroccan airports, and identified and defined technical, financial, and institutional constraints to introducing sustainable competition between handling operators.</p>	Infrastructure development strategies	\$66,600	Completed

CORE FUNDS

South Asia

Activity	Deliverable	Approved funding	Target completion date
BANGLADESH			
<p>Country Framework Report Preparing a comprehensive study of the state of the country's infrastructure—to identify opportunities and measures for improving the regulatory framework and increasing private involvement in infrastructure—and organizing roundtable discussions between the government and private investors to build a consensus on an appropriate strategy.</p>	Infrastructure development strategies	\$400,000	June 2002
INDIA			
<p>Water Sector Policy Reform Initiative Supporting water sector reforms through policy dialogue leading to increased private participation in the delivery and financing of water supply and sanitation services (through leases, concessions, and joint ventures) and increasing awareness among stakeholders of the impact of improved sector performance on poverty.</p>	Capacity building	\$520,000	March 2002
SOUTH ASIA			
<p>Seminar on Frontiers in Infrastructure Financing in South Asia Organized a two-week training course in Goa, India, on trends in the global market for infrastructure finance, innovative financing structures, cutting-edge strategies for risk management, legal and regulatory issues in contract design, and the award and negotiation of concessions.</p>	Capacity building	\$55,000	Completed

CORE FUNDS

Global

GLOBAL			
<p>Casebook on Output-Based Aid for Infrastructure and Related Services Prepared a casebook on output-based aid that promotes practical options for improving the targeting and delivery of donor funds for infrastructure and related services through contracts and monetary incentives.</p>	Emerging best practices	\$62,000	Completed
GLOBAL			
<p>Completion and Publication of the World Bank Port Reform Toolkit Preparing a financial model for port reform projects for the <i>Port Reform Toolkit</i> and disseminating the toolkit in print and CD-ROM through a workshop and pilot training program with the Port Management Association of Southern and Eastern Africa.</p>	Emerging best practices	\$72,000	April 2002
GLOBAL			
<p>Emerging Lessons in Private Provision of Rural Infrastructure Services Preparing case studies on extending access to infrastructure services to low-income rural and peri-urban populations through private sector involvement. The studies highlight the strengths and weaknesses of existing schemes to involve the private sector and improve rural access to water, energy, and telecommunications services.</p>	Emerging best practices	\$500,000	July 2002
GLOBAL			
<p>Global Rail Concessions Study Prepared a study to collect and evaluate consistent data on the results of rail concessions and privatization efforts in 13 countries, showcasing lessons learned and resulting best practices in the rail sector.</p>	Infrastructure development strategies	\$43,000	Completed
GLOBAL			
<p>Labor Redundancy and Privatization Case Studies Preparing three case studies on the impact of privatization on labor and employment, on strategies and approaches for dealing with labor in privatization transactions, and on the role and involvement of labor unions and other key stakeholders in such transactions, the management of labor restructuring, and the productivity and efficiency outcomes of labor restructuring.</p>	Emerging best practices	\$74,068	December 2001

CORE FUNDS

Global

Activity	Deliverable	Approved funding	Target completion date
GLOBAL			
<p>Labor Toolkit for Private Participation in Infrastructure Preparing a toolkit on labor issues in private participation in infrastructure (PPI) that builds on existing policy, research, and analytical work and on practical experience with major PPI transactions in different sectors and regions.</p>	Emerging best practices	\$572,182	March 2002
GLOBAL			
<p>Seminars on Best Practice in Private Sector Transactions in Water and Sanitation Conducted seminars with key transaction advisers on legal, regulatory, and contract design for private participation in water and sanitation aimed at improving services for the poor. The seminars have resulted in greater use of pro-poor requirements in transactions in Ghana, India (Hyderabad), Nepal (Katmandu), and Zambia.</p>	Emerging best practices	\$72,030	Completed
GLOBAL			
<p>UNCITRAL Colloquium on Legislative and Regulatory Issues of Public-Private Partnerships Presented a colloquium at the United Nations Commission on International Trade Law (UNCITRAL) on legislative and regulatory practices relating to public-private partnerships in infrastructure and assessed the needs of developing countries in establishing a legislative and regulatory framework supporting such partnerships.</p>	Emerging best practices	\$71,900	Completed
GLOBAL			
<p>Workbook for Private Infrastructure and the Poor Developing a practical toolkit to guide policymakers in developing and implementing reforms aimed at increasing private involvement in infrastructure and improving access to and the delivery of services for poor households and communities.</p>	Emerging best practices	\$419,400	February 2002

NON-CORE FUNDS

Target Countries of Switzerland

ARMENIA			
<p>Establishing a Multisector Regulatory Agency Assisting the government in reviewing options for, and designing, an efficient, cost-effective regulatory body (for one or more infrastructure sectors) to support increased private participation in infrastructure.</p>	Policy, regulatory, and institutional reforms	\$74,000	December 2001
ARMENIA, AZERBAIJAN, AND GEORGIA			
<p>Promoting Private Investment in Transport and Telecommunications Organized a workshop in Tbilisi, Georgia, to promote private investment in transport and telecommunications in the region and to discuss regional strategies and action plans for increasing private involvement in these sectors based on successful reforms in neighboring countries.</p>	Infrastructure development strategies	\$75,000	Completed
AZERBAIJAN			
<p>Electricity and Natural Gas Restructuring and Regulatory Reform, Phase 2 Reviewing institutional options for regulation of the gas and electricity markets and developing regulatory instruments to support privatization of the electricity sector.</p>	Policy, regulatory, and institutional reforms	\$490,000	March 2002
KAZAKHSTAN			
<p>Privatization of Water Supply Systems in Medium-Size Cities Preparing a model contract to showcase the benefits of involving the private sector in managing, operating, and maintaining the water supply systems in medium-size cities.</p>	Capacity building	\$357,420	November 2002

NON-CORE FUNDS

Target Countries of Switzerland

Activity	Deliverable	Approved funding	Target completion date
TAJIKISTAN			
<p>Private Participation in the Water Supply Providing legal and technical support for selecting a private operator to manage the water supply system in the capital city and training staff in monitoring and regulating private contractors.</p>	Capacity building	\$240,000	January 2002
UKRAINE			
<p>Strategy for Privatizing Electricity Generation Preparing viable strategies and options for privatizing the country's power distribution and generation assets.</p>	Policy, regulatory, and institutional reforms	\$80,000	June 2002
UZBEKISTAN			
<p>Private Participation in the Water Sector Preparing a performance-based management contract that draws on international best practice and incorporates monitorable targets for improvements in the operation of the water system, and providing training in monitoring and regulating private contractors.</p>	Capacity building	\$355,000	January 2002

NON-CORE FUNDS

Target Countries of the United Kingdom

BHUTAN			
<p>Promoting Private Investment in Telecommunications Assisting the Ministry of Communications in reviewing the policy, regulatory, and institutional environment for the telecommunications sector and helping to formulate a national policy for increasing private participation in the sector.</p>	Policy, regulatory, and institutional reforms	\$293,000	October 2001
CAMBODIA			
<p>Strengthening the Regulatory Regime for Telecommunications Assisting the government in strengthening the regulatory regime for telecommunications by assessing guidelines for interconnection, tariff rebalancing, and fair competition policies.</p>	Policy, regulatory, and institutional reforms	\$246,000	December 2001
GHANA			
<p>Small Private Water and Sanitation Providers in Rural Areas Carrying out a two-phase approach to strengthening small and medium-size private water service providers: first, assessing their technical, financial, business, and management capabilities and developing a capacity building program; and second, preparing pilot model business plans to increase the private provision of water in selected small towns.</p>	Infrastructure development strategies	\$295,000	March 2002
KENYA			
<p>Options for Privatizing Water Supply and Sewerage Operation in Nairobi Preparing a strategy for privatizing water supply and sewerage in Nairobi and building consensus among stakeholders on the preferred option.</p>	Infrastructure development strategies	\$441,000	June 2002
KENYA			
<p>Restructuring and Privatization of the Power Sector Analyzing options for private participation in power transmission and distribution, assisting the government in defining a new power industry structure based on the results of the analysis, and building consensus among stakeholders on preferred options for the industry structure.</p>	Infrastructure development strategies	\$490,180	November 2001
KENYA			
<p>Strategy for Privatizing Water Supply and Sewerage in Mombasa and the Coastal Region Developing a road map for privatizing water supply and sewerage in Mombasa and the coastal region and building consensus on preferred options that would expand services to the poor.</p>	Infrastructure development strategies	\$524,850	March 2002

NON-CORE FUNDS

Target Countries of the United Kingdom

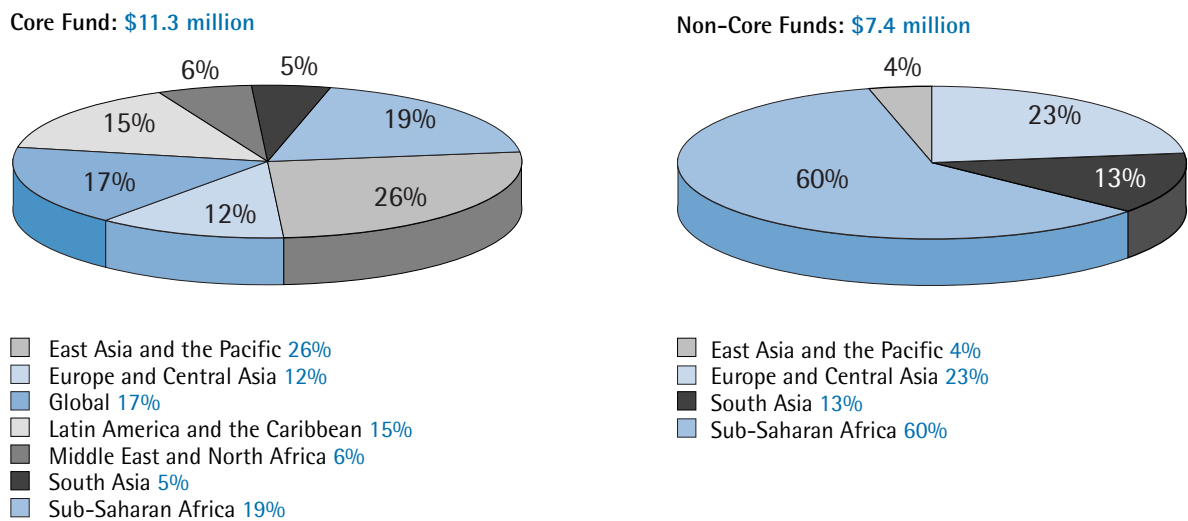
Activity	Deliverable	Approved funding	Target completion date
MALAWI			
<p>Harmonization of the Institutional and Regulatory Framework Comparing the benefits of a multisector regulator and single-sector regulators established to harmonize policies and legislation in the water, electricity, telecommunications, and air and rail transport sectors; and holding workshops to disseminate the findings of the analysis and reach consensus on the optimal choice.</p>	Policy, regulatory, and institutional reforms	\$200,000	December 2001
MOZAMBIQUE			
<p>Private Participation in the Energy Sector Assessing the requirements for private investment in the energy sector—especially by small-scale providers—to increase the access of poor households to modern energy sources such as electricity, natural gas, and liquefied petroleum gas (LPG); establishing a policy and regulatory framework; assessing the capacity of domestic private firms to participate in the sector; and reviewing households' willingness to become paying customers.</p>	Infrastructure development strategies	\$700,000	December 2001
NEPAL			
<p>Institutional Arrangements for the Water Sector Preparing a report on optimal institutional arrangements for the urban water and wastewater sector in the Katmandu Valley, organizing workshops to build consensus among senior decisionmakers and stakeholders on proposed legislation for the sector, and developing guidelines for a transparent institutional and regulatory framework for the sector.</p>	Policy, regulatory, and institutional reforms	\$74,000	August 2002
NEPAL			
<p>Report on the State of Private Involvement in Infrastructure Prepared a diagnostic report on cross-sectoral issues relating to private involvement in infrastructure in the country to help decide whether to undertake a Country Framework Report.</p>	Infrastructure development strategies	\$75,000	Completed
NEPAL			
<p>Telecommunications Reform Preparing a detailed policy agenda to support successful implementation of the telecommunications reform policy and identify strategies for strengthening the capability of the Ministry of Information and Communications.</p>	Policy, regulatory, and institutional reforms	\$121,000	December 2001
NIGERIA			
<p>Expansion of Private Sector Involvement in Water Utilities in Ogun State Preparing studies to identify appropriate options and support necessary reforms for increased private investment in Ogun's water sector, with the aim of improving the operational efficiency of the state's water utilities.</p>	Infrastructure development strategies	\$265,650	December 2001
NIGERIA			
<p>Options for Private Participation in the Port Sector Assisting the government in preparing guidelines for privatizing the port sector and in granting a pilot concession of Lagos Port Container Terminal to an international private operator.</p>	Infrastructure development strategies	\$596,000	June 2002
TANZANIA			
<p>Redrafting of the Telecommunications Industry Regulatory Bill Drafting new legislation to strengthen a market-led regulatory regime for telecommunications, using model interconnection agreements and class licenses and ensuring consistency with the mandate of the newly established multisector Utilities Regulatory Authority.</p>	Policy, regulatory, and institutional reforms	\$344,000	March 2002
VIETNAM			
<p>Assisting Contract Negotiations for the Phu My 2-2 BOT Power Project Assisted the government in finalizing the build-operate-transfer (BOT) contract and power purchase agreement for the Phu My 2-2 Power Project, which will involve the country's first major private power generator.</p>	Policy, regulatory, and institutional reforms	\$75,000	Completed

NON-CORE FUNDS

Target Countries of the United Kingdom

Activity	Deliverable	Approved funding	Target completion date
ZAMBIA			
Institutional Capacity Building for NWASCO Assessing the institutional capacity of the National Water Supply and Sanitation Council (NWASCO) to regulate the increased number of private firms in the water sector and preparing a time-bound action plan for capacity building efforts.	Capacity building	\$299,000	July 2002
ZAMBIA			
Options for Private Participation in the Provision of Water and Sewerage Services in Lusaka Assisting in the privatization of the Lusaka Water and Sewerage Company by assessing the city's requirements, reviewing appropriate institutional arrangements, and defining an optimal strategy for engaging the private sector in the company.	Infrastructure development strategies	\$271,659	December 2001

Figure A1.1 Approved activities for fiscal 2001 by region and type of funding



Annex 2 PPIAF Work Programs for Fiscal 2001 and 2002

(percentage share of program)

	Fiscal 2001 Indicative Work Program	Fiscal 2001 Actual work program	Fiscal 2002 Indicative Work Program
Activities in key areas of action	77	78	73
Infrastructure development strategies	29	29	28
Policy, regulatory, and institutional reforms	26	36	28
Consensus building	8	2	8
Capacity building	9	11	7
Support to pioneering projects and transactions	4	0	2
Identification, dissemination, and promotion of emerging best practices	11	10	10
Conferences	2	1	1
Toolkits	6	3	6
Other	3	7	3
Other supporting activities	0	0	0
Project Management Unit expenditures	12	12	17
Total	100	100	100

Annex 3 Process for Evaluating and Approving Proposals for PPIAF Assistance

1. The process for evaluating and approving proposals for PPIAF assistance has been designed to ensure conformity with the approval criteria and the annual work program (figure A3.1).
2. Proposals for PPIAF assistance may be evaluated and approved through one of two processes:
 - (a) Proposals may be specifically identified in the annual work programs approved at annual meetings of the Program Council, or
 - (b) Proposals may be dealt with by the Program Management Unit between meetings of the Program Council in accordance with the agreed work program, criteria, and processes.
3. The evaluation and approval processes for the second category of proposals aim to strike a balance among speed, cost, comprehensiveness of evaluation, transparency, and other considerations. To facilitate this approach, proposals are classified

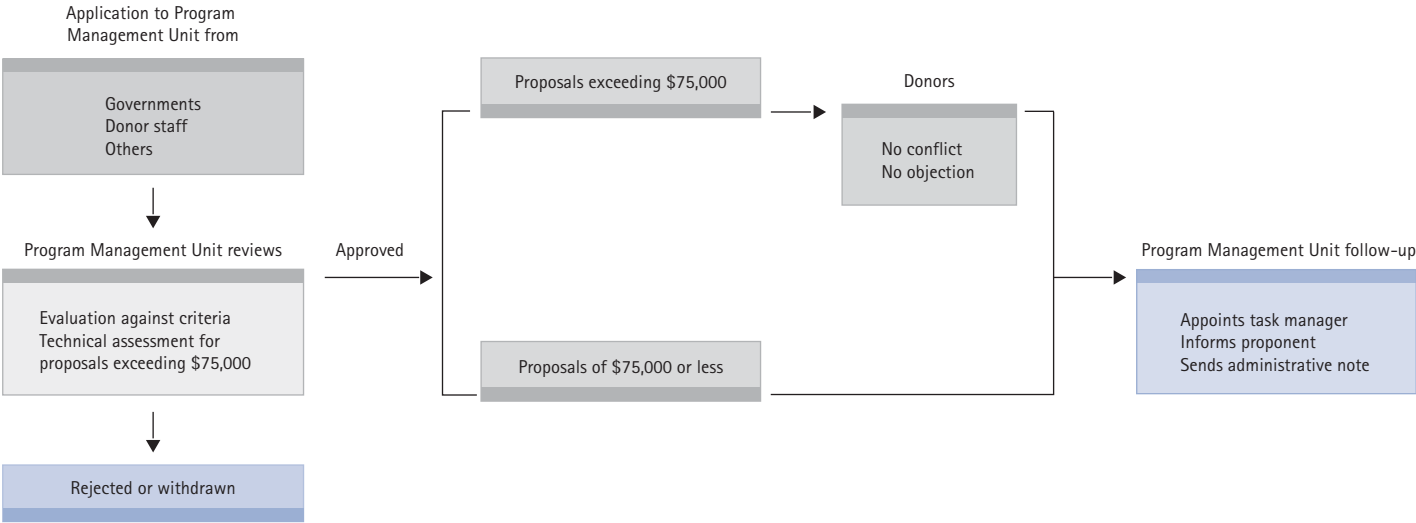
according to the amount of support requested from PPIAF: small (\$75,000 or less), medium-size (more than \$75,000 and up to \$250,000), or large (more than \$250,000).

4. The evaluation and approval process for proposals under the Core Fund is described below. Proposals for which funding is sought from Non-Core Funds will generally follow the same process, with final approval required from the relevant donor rather than the Program Council as a whole.

A. APPLICATIONS

5. Proposals for PPIAF assistance may originate from any source. Consistent with the approval criteria, however, proposals relating to country-specific activities will require the approval in writing of the relevant government.
6. Proposals for PPIAF assistance are initiated by the completion of an application form that seeks to capture all key information required to assess the proposal, including a detailed budget and detailed terms of reference. The detailed budget should

Figure A3.1 Application process for PPIAF assistance



correspond to the scope of work outlined in the detailed terms of reference. The application form—together with supporting information—is available on the PPIAF Web site, as well as in paper form that is disseminated widely.

B. INITIAL SCREENING

7. The Program Management Unit will undertake an initial screening of all proposals to ensure that the application is complete and is consistent with the threshold eligibility criteria in relation to eligible countries, sectors, forms of private involvement, and nature of intervention. If required, the Program Management Unit may consult with the proponent to elicit additional information. PPIAF's activities are not governed by the World Bank Group's Country Assistance Strategy per se. However, consistent with PPIAF's objective of promoting coordination among official donors, PPIAF country-specific activities may not be undertaken if they conflict with the actions being undertaken by PPIAF members or, to the extent this is easily verifiable, by other donors. To operationalize this requirement in the case of the World Bank Group, the relevant contact point will be the World Bank country director.

C. TECHNICAL ASSESSMENT

8. Proposals that meet the threshold eligibility requirements will be subject to more intensive scrutiny according to the approval criteria and annual work program.
9. For small proposals (\$75,000 or less), the Program Management Unit may undertake this evaluation from its own resources but may request an independent technical assessment from one or more specialists with relevant expertise. For this purpose, the Program Management Unit shall develop and maintain a roster of relevant specialists, drawing on World Bank Group staff as well as other

qualified professionals. The findings and recommendations of such assessors shall not be binding on the Program Management Unit, but shall in all cases be recorded in the activity file and will be available to PPIAF donors. To ensure a rapid response capability, applications for small activities shall be considered on a rolling basis, without the need for a relative assessment of proposals through the periodic batching of proposals.

10. For medium-size and large proposals (more than \$75,000), the Program Management Unit is obliged to seek an independent technical assessment from one or more specialists with relevant expertise drawn from the roster. As with small proposals, the findings and recommendations of such assessors shall not be binding on the Program Management Unit, but shall in all cases be recorded in the activity file and will be available to PPIAF donors. Unlike small proposals, medium-size and large proposals will usually be batched for evaluation on a quarterly basis, so as to allow an assessment of the relative merits of each proposal. However, this batching requirement may be waived in the case of urgent requests with the agreement on a "no objection" basis of the Program Council.
11. In all cases, if the Program Management Unit is of the opinion that the proposed activity is technically sound but raises significant social, political, or other sensitivities not fully addressed in the approval criteria, the Program Management Unit shall refer the proposal to the Program Council for further guidance.

D. DONOR COORDINATION

12. Proposals that are adjudged to meet the threshold eligibility requirements and to be consistent with other approval criteria will then be tested to ensure that they are not in conflict with the programs or activities of donors.

13. For small proposals (\$75,000 or less), the Program Management Unit shall make this assessment by undertaking a review against information reasonably available on donor programs and activities.
14. For medium-size and large proposals (more than \$75,000), the Program Management Unit will undertake a more active assessment. In the case of donors participating in PPIAF, this will involve consultation on a “no objection” basis. This consultation will usually be undertaken through electronic mail inviting nominated contact persons to register any concern within a maximum of 10 working days.¹ To facilitate this process, participating donors are to advise the Program Management Unit of relevant contact details within their organization. In the case of donors not participating in PPIAF, best endeavors will be made to obtain relevant information on these donors’ programs.
15. If the above processes reveal any issue of donor coordination, the Program Management Unit shall endeavor to resolve such matters through appropriate consultation. Matters that cannot be resolved in this manner may be referred to the Program Council for further guidance.

E. APPROVAL

16. Proposals that pass the above tests shall be subject to final approval according to the following process.
17. For small and medium-size proposals (\$250,000 or less), the program manager is authorized to approve the proposal without further reference to the Program Council. However, the program manager shall inform the Program Council of the approval activity through quarterly reports.
18. For large proposals (more than \$250,000), the Program Management Unit is required to seek the endorsement of the Program Council on a “no objection” basis. This will normally be through a

series of quarterly reports based on the quarterly batching of proposals, where donors would be asked to register any objection within 10 working days. For urgent requests, the Program Council may be invited to endorse the activity at the same time as it is asked to waive the batching requirement (see para 10) and to confirm that there is no conflict with donor programs or activities (see para 14).

F. NOTIFICATION OF PROPONENT

19. Proponents will be notified immediately following the acceptance of their proposal. If a proposal is rejected, an explanation will be provided to the applicant.

G. EXECUTION

20. Once an activity has been approved and PPIAF funds are allocated, the Program Management Unit shall designate a task manager for the activity on the basis of relevant expertise. The task manager will be responsible for ensuring that all appropriate procurement, supervision, and reporting procedures are complied with.

¹. For urgent matters, the Program Management Unit may expedite this process by seeking affirmative advice from Program Council members.



Credits

Photos

Cover, title page, and page 12 (man and gas valve), Corbis Stock Market/Lester Lefkowitz 2001.

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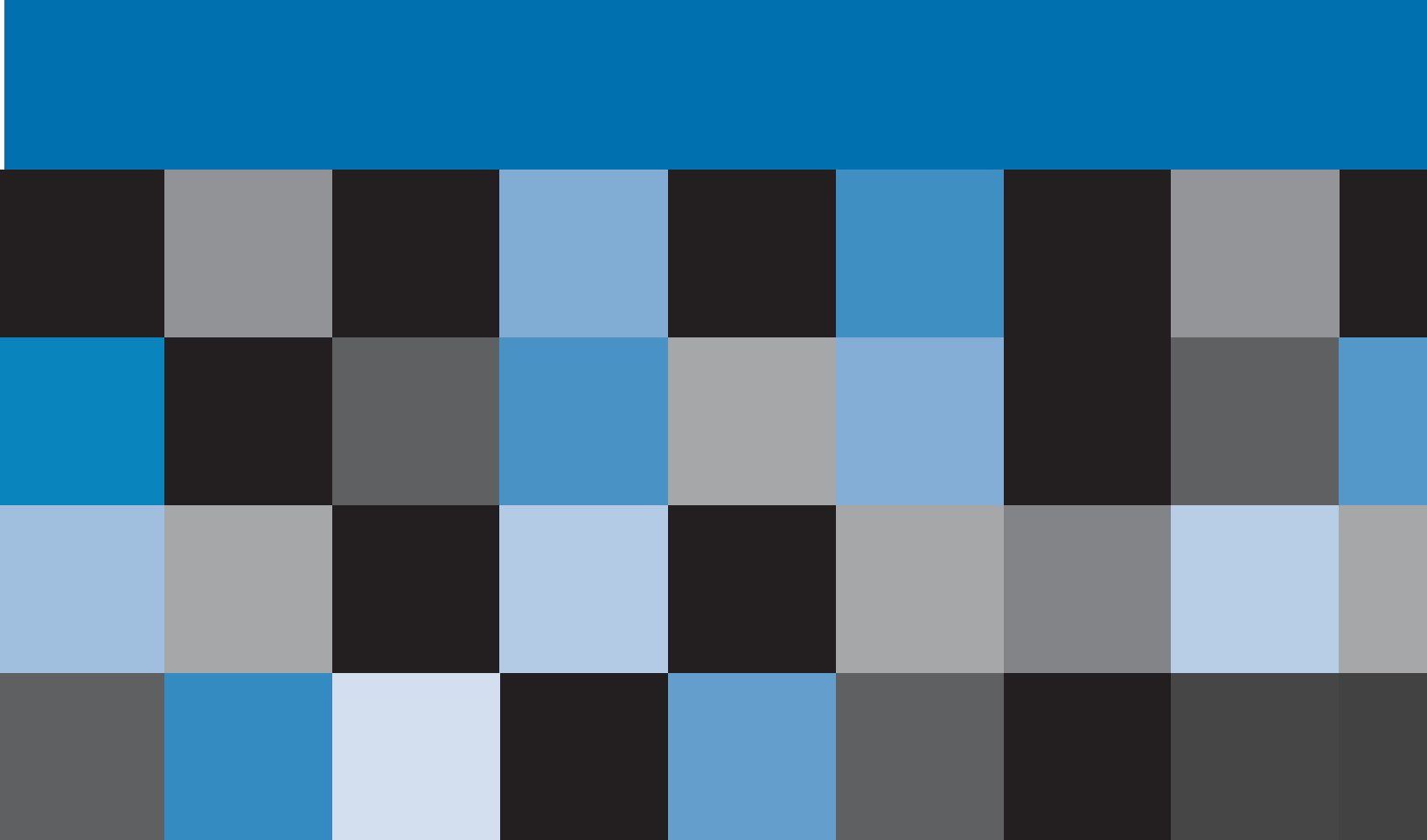
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