



HELPING TO ELIMINATE POVERTY





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.



HELPING TO ELIMINATE POVERTY

*and achieve
sustainable development*

*through
Private Involvement*

IN INFRASTRUCTURE



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 natural gas transmission and distribution. Countries eligible for PPIAF-financed assistance include developing and transition economies as listed from time to time by the Development Assistance Committee of the Organisation for Economic Co-operation and Development.

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 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.

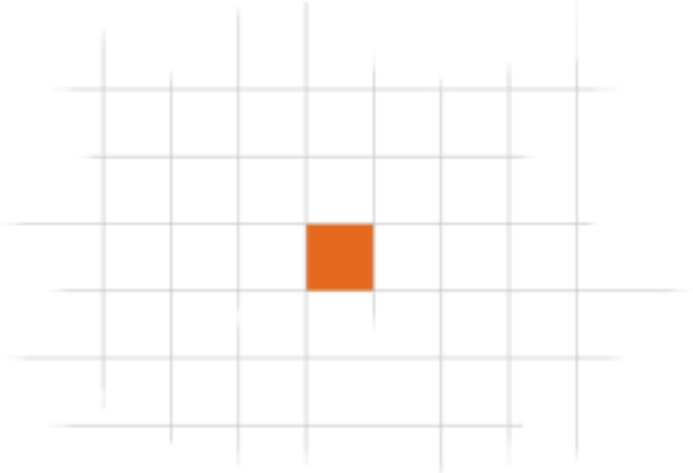
Delivery of PPIAF Services

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 on the PPIAF Web site.



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Section 1



Infrastructure and Development: The Continuing Promise of Private Involvement

Governments around the world seek answers to the same fundamental questions: What must we do to ensure a better quality of life for our people, particularly those in the poorest communities? How can we mobilize the tremendous resources required to expand and improve the basic infrastructure services that our citizens need? And if we can mobilize those resources, how can we ensure that the services are sustainable, affordable, and delivered efficiently? It is this set of questions that drives governments to consider the most effective roles for the public and private sectors in the provision of infrastructure.

Governments have traditionally sought to deliver infrastructure services through public sector monopolies that operate with budgetary revenues complemented by user fees or tariffs. Yet despite investments in infrastructure facilities estimated at \$250 billion a year, few public enterprises in the developing world have reached all the households and businesses requiring service. One billion people still lack adequate access to clean water, and 2 billion access to basic sanitation facilities. And 2 billion worldwide remain without electricity, with a mere 6 percent of the population in many Sub-Saharan African countries connected to the power system. Moreover, those who do receive service often find it unreliable and of poor quality, while the inefficient utilities serving them remain a perennial burden on government budgets.



POVERTY ALLEVIATION AND INFRASTRUCTURE

Poor people lacking connections to power and water systems and transport networks suffer in two ways. They are unable to benefit from reliable service. And they pay much more to meet their basic needs than do those who have connections. In Haiti poor people pay vendors 5–16 times as much per cubic meter of water as they would pay a water utility if they had a connection. In Guatemala households without a connection to the power grid must use candles, kerosene, and batteries—and pay 50 times as much per kilowatt-hour as those who receive electricity service.

Beyond these direct impacts on people's living standards, the quality and quantity of infrastructure services affect a country's economic growth—a crucial element in reducing poverty. Safe water supplies, efficient transport networks, competitive telecommunications services, and affordable and reliable energy all play a role in stimulating economic activity. Timely and reliable provision of good-quality infrastructure services lowers the cost of doing business, improves access to markets, and enhances productivity and competitiveness—and thus increases investment, employment, and export earnings. But infrastructure yields these benefits only when decisions on infrastructure investments are made optimally and services are run efficiently. These efficiencies come about with private provision of infrastructure services under competitive (or appropriately regulated) conditions.

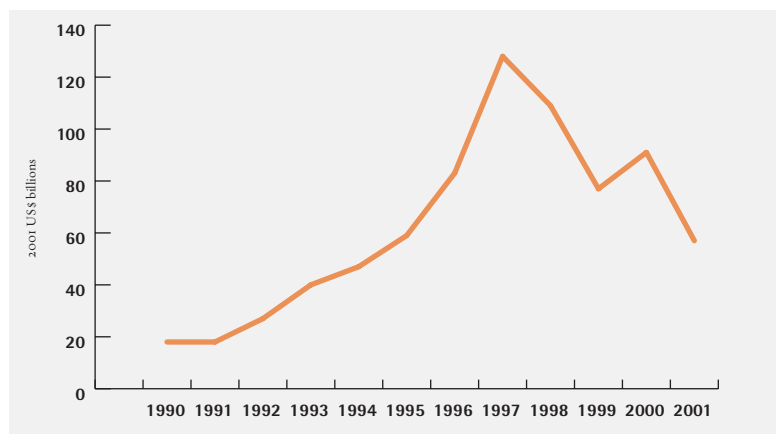
Over the past decade, driven by fiscal constraints and the need for more efficient and responsive service providers, governments have begun to invite the private sector into the operation, management, and ownership of infrastructure. This has transformed the way in which government agencies participate in basic service provision. Nearly all governments have stopped trying to perform as the operator and exclusive financier of infrastructure services in at least one key sector, redefining their role as one of setting sectoral policy, facilitating contracts, and regulating private providers.

THE PRIVATE SECTOR'S ROLE IN INFRASTRUCTURE, 1990–2001

Between 1990 and 2001 more than 130 low- and middle-income countries introduced private participation in infrastructure sectors—57 of them in three or four sectors. During that period the private sector took over the operating or construction risk, or both, for nearly 2,500 infrastructure projects in developing countries, with the projects attracting investment commitments totaling more than \$750 billion. Investment flows to infrastructure projects with private participation grew strongly between 1990 and 1997, from \$18 billion to a record \$128 billion.¹ While still significant in amount and geographic coverage, investment in such projects fell back to about \$60 billion in 2001 (figure 1.1). Underlying this overall picture of declining investment are regional and sectoral trends related to the evolving role of the private sector in providing infrastructure services and the appetite for private investment.

Figure 1.1

Annual Investment in Infrastructure Projects with Private Participation in Developing Countries, 1990–2001



Source: World Bank, PPI Project Database.

Regional Trends

Latin America and East Asia attracted the lion's share of investment in private infrastructure projects in 1990–2001 (figure 1.2). Yet these two regions not only drove the boom in private participation in infrastructure; they also led the decline. Expecting large returns from fast-growing markets, private investors paid what in retrospect appears to be a premium for early projects in the larger markets of Asia and Latin America—such as Indonesia, the Philippines, Argentina, and Brazil—in the early to mid-1990s. Since the East Asian crisis and the subsequent crises in Latin America, these same countries have seen a softening of demand, excess capacity in several infrastructure sectors, and declining investment overall. By contrast, in smaller and poorer countries private companies moved cautiously, committing minimal investment capital and requiring maximum coverage through the project structure.

While investment flows to Latin America and East Asia had fallen to half their peak by 2001, those to the poorest countries declined by much less. In fact, by 2001 investment in private infrastructure projects had rebounded and surpassed the peak of the mid-1990s in Sub-Saharan African countries eligible to borrow from the World Bank's concessional lending arm, the International Development Association (IDA), and in IDA countries as a group (figure 1.3). Investments remained modest compared with the needs in these countries, where large shares of the population still lack basic services. Still, even as total investment in infrastructure projects with private participation declined, the share going to the poorest nations grew. Moreover, investment projects in the poorest countries continue to attract interest from the private sector, as reflected by its involvement in the water or power utilities of Azerbaijan, Cameroon, Guinea, Niger, and Togo.

Cumulative Investment in Infrastructure Projects with Private Participation in Developing Countries by Region, 1990–2001

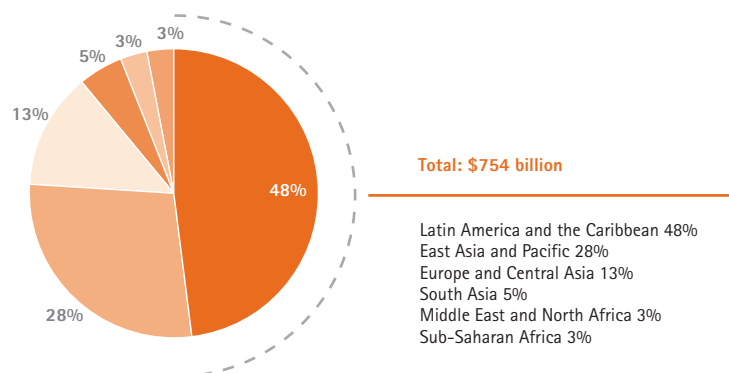


Figure 1.2

Source: World Bank, PPI Project Database.

Sector Trends

Among sectors, telecommunications and power accounted for most of the investment in infrastructure projects with private participation in 1990–2001 (figure 1.4). Driving the investment in these two sectors were the privatization of telecommunications in Argentina and Brazil and greenfield power generation projects in Asia before the crisis in that region.

Important inroads were also made in other sectors, but water and sewerage lagged behind other network services. This poor performance reflects the continuing challenges of introducing private investment in a sensitive “essential” sector that is often the responsibility of subnational governments. It also reflects the fact that public authorities have traditionally charged low tariffs in the water sector—amounting to about 30 percent of costs in the early 1990s. Under public sector ownership the losses resulting from these tariffs are made up by taxpayer subsidies or by the deterioration of assets through inadequate investment in maintenance. Thus private water companies have had to address this financing gap by improving efficiency, raising tariffs to cost recovery levels, or doing both. While private operators have in many instances considerably improved efficiency, achieving political and social acceptability of higher water prices has often proved too high a hurdle for many private firms to overcome.

Annual Investment in Infrastructure Projects with Private Participation in IDA Countries, 1990–2001

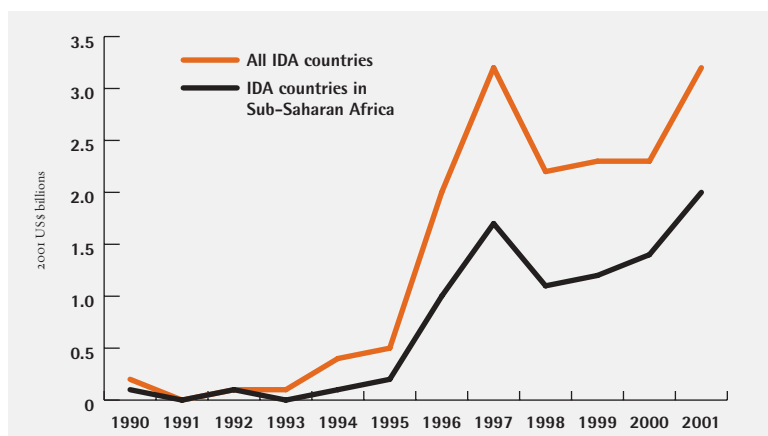


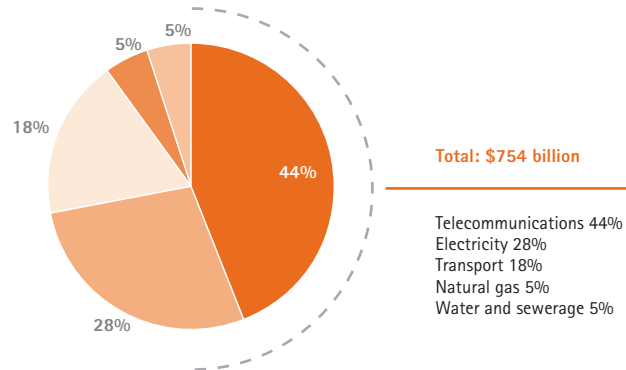
Figure 1.3

Note: Excludes countries eligible to borrow from the World Bank on both normal and concessional terms (“IDA-blend countries”).
Source: World Bank, PPI Project Database.

The decline in investment over the past decade was not equal across sectors (figure 1.5). Investment in telecommunications was down from its peaks of 1997 and 1998, when auctions of mobile licenses attracted private investment, but fell less than that in power. In telecommunications, where tariffs have tended to be relatively high, and in ports, airports, and freight rail, where hard currency revenues have been more secure, there has been little public criticism of private participation and little boom-bust phenomenon. In transport, investment in projects with private participation actually rose throughout the developing world in 2000–01, surpassing investment in power projects for the first time in 2001. The water sector, never accounting for a large share of the investment in projects with private participation, saw activity decline in the past few years.

Figure 1.4

Cumulative Investment in Infrastructure Projects with Private Participation in Developing Countries by Sector, 1990–2001



Source: World Bank, PPI Project Database.

“Managing regulatory relations effectively with service providers is a key issue for newly established regulatory agencies regional . . . dialogue is a great way to share experiences and learn from each other’s achievements and setbacks.”

Alioune Fall
Regulatory Commission for
Electricity, Senegal

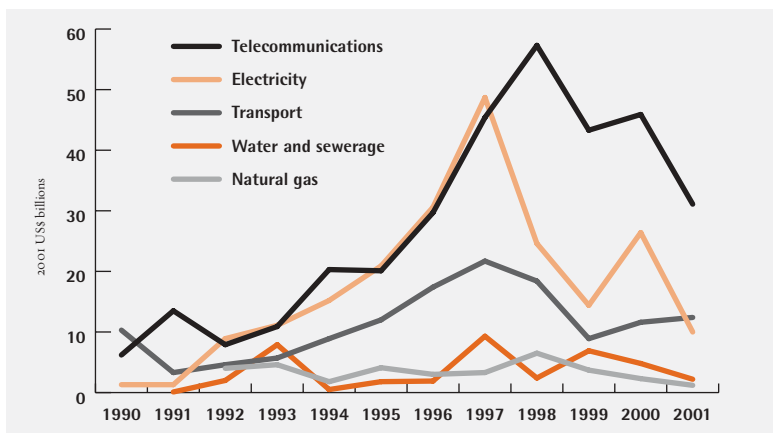
Gains from Private Participation

Notwithstanding some of the decline in private investment in the past three years, private participation in infrastructure—in a very significant way—resulted in the expansion of service and improvements in quality, enhancing people’s standard of living while lowering the cost of doing business across sectors and regions. Many sector and country studies have shown that well-designed schemes of private participation have significantly boosted the quality and reliability of service and helped poor people gain access to service for the first time.

In water and sewerage, arguably the most difficult sector, the introduction of private participation significantly expanded service coverage in cities as diverse as Buenos Aires (Argentina), Manila (the Philippines), La Paz (Bolivia), Abidjan (Côte d’Ivoire), and Conakry (Guinea). In electricity the results are even more striking. Since the involvement of private companies in Argentina, Chile, Gabon, and Peru, there has been

Figure 1.5

Annual Investment in Infrastructure Projects with Private Participation in Developing Countries by Sector, 1990–2001



Source: World Bank, PPI Project Database.

a marked increase in the coverage of electricity services. And the expansion of electricity networks and the licensing of small-scale private providers of power have benefited poor people from Cambodia to Guatemala, and from Kenya to Côte d'Ivoire. Privatization of fixed-line telecommunications service providers has improved service, lowered costs, and often resulted in huge cash payments to the government in countries as diverse as Mauritius, Poland, and Uganda. And liberalization of the market for telecommunications services has dramatically increased coverage in countries around the world.

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

So, despite the challenges of the past decade, countries that have embarked on substantive reform in infrastructure and introduced private participation have already begun to reap the benefits. And private infrastructure schemes continue to offer promising potential for contributing even more to economic growth and poverty alleviation. To consolidate and expand these benefits will require sustaining and deepening the reforms in infrastructure, a key challenge for policymakers.



While most developing countries have introduced some form of private involvement in infrastructure, progress has been slow in South Asia and Sub-Saharan Africa and in water and sewerage. The macroeconomic difficulties in Latin America and the tensions in South Asia and the Middle East dim investment prospects in those regions and complicate investment decisionmaking in many business sectors in emerging markets—not least in the capital-intensive infrastructure services. Adding to the uncertainty, many major strategic investors in the industrial world have suffered a drop in capitalization as a result of corporate governance concerns and structural and investment decisions unrelated to their emerging market portfolios. This trend has reduced their appetite for investing in high-risk projects as well as the appetite of lenders to finance such ventures.

In this difficult climate governments of developing countries must redouble their efforts to reduce the risks associated with uncertainty. In some cases such risks stem in part from the private sector's inability to predict the behavior of governments, particularly in the treatment of the laws, rules, contracts, and regulations governing private economic activity. And in the efforts to improve the enabling environment for private participation in infrastructure, policymakers must not lose sight of the need to design programs that address concerns about access, affordability, equitable treatment of consumers, and the needs of marginalized communities.

All this points to difficult challenges ahead for the donor community—and to a need for coordinated, systematic support to help developing countries structure sound schemes of private participation in infrastructure. This support will require assistance with:

- Capacity building and training for policymaking and regulatory institutions.
- Policy, regulatory, and institutional reforms.
- Sectoral and national infrastructure development strategies.
- Contract design and selection and award processes for projects and transactions.

Equally important in the current climate is to assist governments in building consensus on private participation in infrastructure among consumers, nongovernmental organizations, labor representatives, and other stakeholders, to earn their trust and ensure civil society's support for policies in this area.

As a multidonor facility dedicated to helping to eliminate poverty and achieve sustainable development through private involvement in infrastructure, the Public-Private Infrastructure Advisory Facility (PPIAF) has never had a more important role to play. Since its inception in July 1999, PPIAF has focused on providing technical assistance to governments on options, strategies, and approaches for private participation in energy (electricity and natural gas), transport (roads, ports, airports, and railways), telecommunications, solid waste, and water and sewerage. PPIAF disseminates emerging lessons of experience from around the globe and promotes practices enabling governments to structure private participation in infrastructure in ways that can ultimately ensure the delivery of high-quality services to the poor. PPIAF pursues its objectives by helping to coordinate the work of donors that already provide assistance for private participation in infrastructure and by supporting concerted action by these donors in a way that leverages resources for maximum impact and improves the quality, coherence, and coordination of technical assistance.

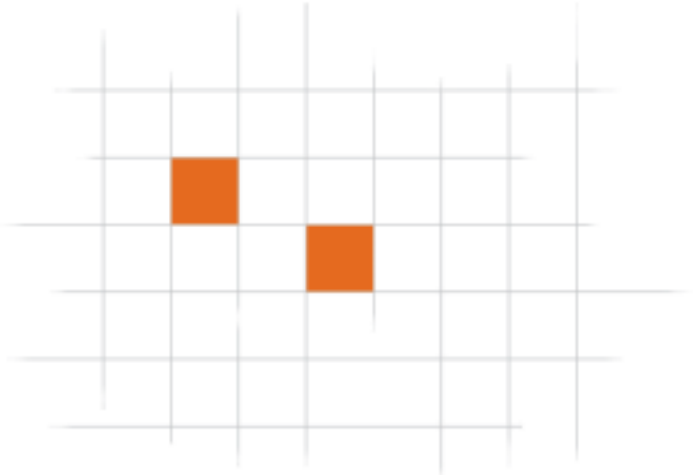
i. Investment amounts refer to the total investment (private and public) in projects managed, operated, or owned by the private sector. Unless otherwise specified, all dollar amounts are in 2001 U.S. dollars.





“We have been going into privatization without enough assessment of what we are going for and what options are available. PPIAF’s interventions came in time and we are confident of achieving our objectives.”

Tesha Prosper
Director, Tanzania Airports Authority
Dar-es Salaam, Tanzania



Section2



Operations

This section summarizes PPIAF's fiscal 2002 portfolio and highlights some completed activities, describing their impact, along with selected activities still under way.

THE FISCAL 2002 PORTFOLIO: AN OVERVIEW

PPIAF funded a range of activities in all eligible sectors and across all developing regions in its third year of operation. In the fiscal year ending June 30, 2002, the PPIAF portfolio covered 59 activities in more than 35 countries, including 13 regional activities, for a total value of \$13.3 million. Additional cofinancing of around \$4.7 million was mobilized from other donors and through contributions from governments.

Geographic Focus

Countries eligible for PPIAF assistance are those classified by the Development Assistance Committee of the Organisation for Economic Co-operation and Development, in its 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 funding in fiscal 2002, followed by East Asia and Pacific and Europe and Central Asia (table 2.1; figure 2.1).



Sector Focus

PPIAF activities help pave the way for private 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.

A range of infrastructure sectors are eligible for PPIAF support:

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

The Program Council, in its review of PPIAF's operations, agreed that the portfolio for fiscal 2002 reflected a reasonable balance across the eligible sectors. Activities covering more than one sector accounted for the largest number of funding approvals, reflecting PPIAF's continued emphasis on systematic approaches that transfer lessons and experience across sectors (table 2.2). These multisectoral activities include capacity building exercises for regulators of both power and water, and strategies for increasing competition in network services such as rail, roads, power, and telecommunications.

“This toolkit takes us to a new level and advances the work we are doing. This is a very important product that can have significant impact for our clients.”

John Flora
Transport Sector Director
World Bank

Table 2.1 PPIAF Activities by Region, Fiscal 2002

Region	Number of activities	Funding (US\$ thousands)	Share of activities (%)	Share of funding (%)
Sub-Saharan Africa	22	5,214	37	39
East Asia and Pacific	17	3,584	29	27
Europe and Central Asia	6	2,215	10	17
South Asia	8	1,242	13	9
Latin America and the Caribbean	3	863	6	7
Middle East and North Africa	0	0	0	0
Global	3	140	5	1
Total	59	13,257	100	100

Table 2.2 PPIAF Activities by Sector, Fiscal 2002

Sector	Number of activities	Funding (US\$ thousands)	Share of activities (%)	Share of funding (%)
Water and sewerage ^a	13	3,167	19	23
Energy	15	2,996	27	23
Electricity	13	2,477	23	19
Natural gas	2	519	4	4
Telecommunications	3	607	5	5
Transport	3	562	6	5
Roads	2	492	4	4
Ports	1	70	2	1
Airports	0	0	0	0
Railways	0	0	0	0
Multisector	25	5,925	43	44
Total	59	13,257	100	100

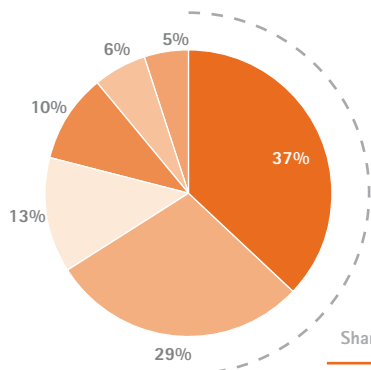
a. Including solid waste.

Table 2.3 PPIAF Activities by Deliverable, Fiscal 2002

PPIAF deliverable	Number of activities	Funding (US\$ thousands)	Share of activities (%)	Share of funding (%)
Policy, regulatory, and institutional reforms	24	5,566	40	43
Infrastructure development strategies	17	5,072	29	38
Capacity building	10	1,356	17	10
Identification, dissemination, and promotion of emerging best practices	4	969	7	7
Consensus building	4	295	7	2
Total	59	13,257	100	100

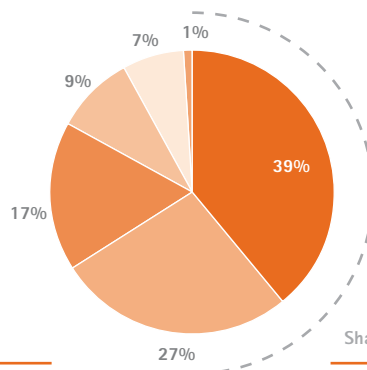
Distribution of PPIAF Portfolio, Fiscal 2002

Figure 2.1



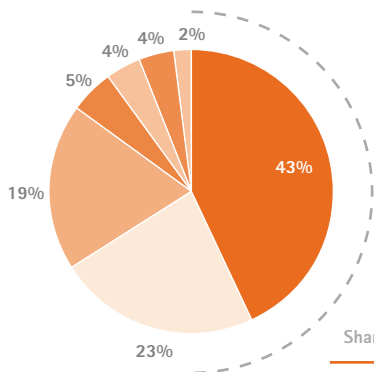
Share of activities by region

Sub-Saharan Africa 37%
East Asia and Pacific 29%
South Asia 13%
Europe and Central Asia 10%
Latin America and the Caribbean 6%
Global 5%



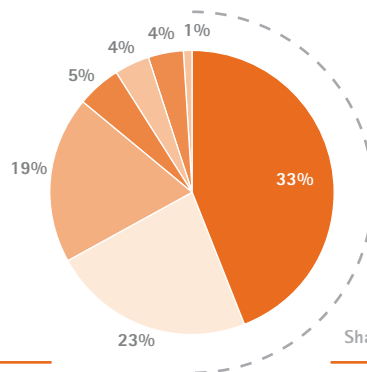
Share of funding by region

Sub-Saharan Africa 39%
East Asia and Pacific 27%
Europe and Central Asia 17%
South Asia 9%
Latin America and the Caribbean 7%
Global 1%



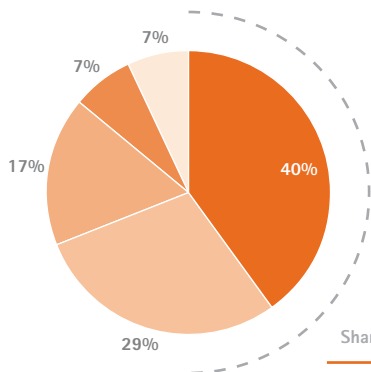
Share of activities by sector

Multisector 43%
Electricity 23%
Water and sewerage 19%
Telecommunications 5%
Natural gas 4%
Roads 4%
Ports 2%



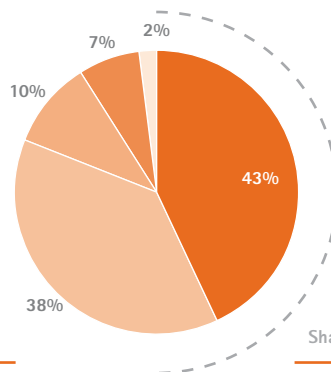
Share of funding by sector

Multisector 44%
Electricity 19%
Water and sewerage 23%
Telecommunications 5%
Natural gas 4%
Roads 4%
Ports 1%



Share of activities by PPIAF deliverable

Policy, regulatory, and institutional reforms 40%
Infrastructure development strategies 29%
Capacity building 17%
Consensus building 7%
Emerging best practices 7%



Share of funding by PPIAF deliverable

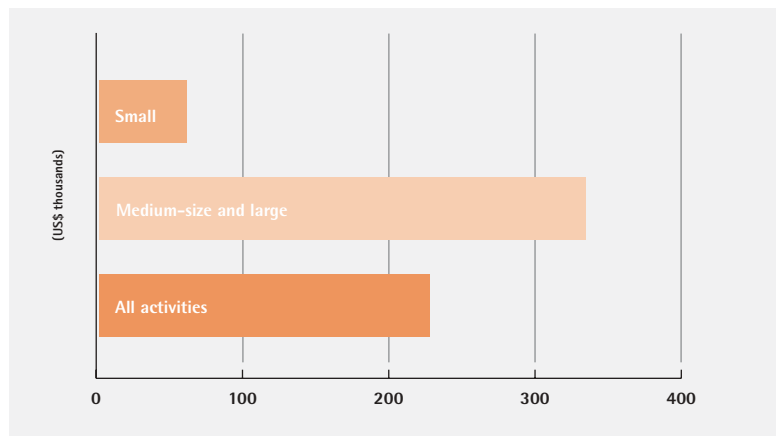
Policy, regulatory, and institutional reforms 43%
Infrastructure development strategies 38%
Capacity building 10%
Emerging best practices 7%
Consensus building 2%

Table 2.4 PPIAF Activities by Size, Fiscal 2002

Size	Number of activities	Funding (US\$ thousands)	Share of activities (%)	Share of funding (%)
Small	25	1,736	42	13
Medium-size	11	2,261	17	17
Large	23	9,260	41	70
Total	59	13,257	100	100

Figure 2.2

Average Size of PPIAF Activities, Fiscal 2002



Size of Activities

Small activities (\$75,000 or less), with an average value of \$69,426, accounted for 25 of the 59 funding approvals in fiscal 2002, for a total value of \$1.7 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 (34) and in value (\$11.5 million), with an average size of \$338,859. The average size for all activities was \$224,693, a little smaller than the previous year's average of \$252,473.

PORTFOLIO REVIEW OF SELECTED ACTIVITIES

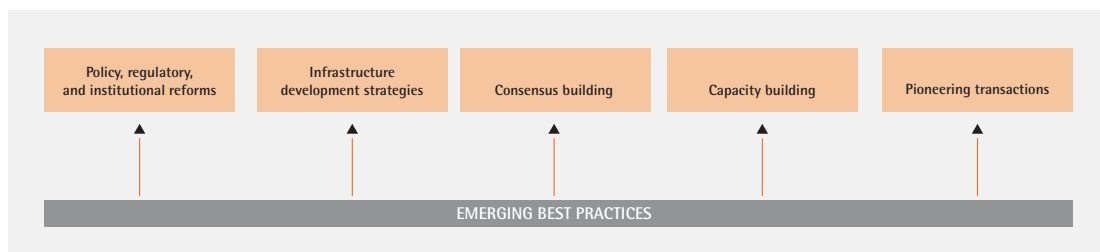
This section presents a summary of selected activities that have been undertaken under one or more of PPIAF's six deliverables:

- Policy, regulatory, and institutional reforms.
- Infrastructure development strategies.
- Consensus building.
- Capacity building.
- Support to pioneering projects and transactions.
- Identification, dissemination, and promotion of emerging best practices, a category of activities common to and underlying the first five deliverables (figure 2.3).

Most common among the PPIAF activities in fiscal 2002 were policy, regulatory, and institutional reforms and infrastructure development strategies (see table 2.3).

Figure 2.3

PPIAF Deliverables



The activities described here are classified by their primary deliverable, although many activities involve more than one type of deliverable or output. For example, although categorized as infrastructure development strategies, Country Framework Reports require workshops with key stakeholders and a roundtable aimed at consensus building. The action plans that result from the analysis and workshops for such reports directly address the need for policy, regulatory, and institutional reforms as well as for capacity building. Similarly, a regulatory reform program is likely to include consensus building exercises with consumer groups, labor representatives, government officials, and the local private sector. It might also include capacity building through training programs for the newly appointed regulators. Such a project might be characterized as a policy, regulatory, and institutional reform activity if establishing the overall market structure and regulatory framework is the main thrust. (See annex 1 for a brief description of fiscal 2002 activities classified by deliverable.)

Policy, Regulatory, and Institutional Reforms

Governments face a wide range of challenges as they transform their role from one of financing, owning, and operating infrastructure services into one of facilitating and regulating the private provision of services. During fiscal 2002 PPIAF continued to respond to the strong demand from governments for guidance in developing detailed strategies for involving the private sector, restructuring industries to facilitate competition, and designing and establishing legal, regulatory, and institutional frameworks. It approved 24 activities in the area of policy, regulatory, and institutional reforms, more than for any other type of deliverable (see annex 1 for descriptions of these activities). The activities ranged from helping Cambodia design a strategy for expanding the role of small-scale private water providers to assisting Azerbaijan in developing a strategy for private provision of water and wastewater services in Greater Baku (box 2.1). Another activity involved helping Sri Lanka draft legislation establishing a multisectoral regulatory body (box 2.2). Other examples of support in this area covered diverse regions and sectors.

Box 2.1

Azerbaijan: Private Sector Involvement in the Provision of Water and Wastewater Services in Greater Baku

In Azerbaijan PPIAF is helping the government prepare a strategy for private provision of water and wastewater services in the Greater Baku metropolitan area, whose water and sewerage system serves about 40 percent of the country's 7.5 million people. The analysis to be conducted in this activity will support a strategy for engaging the private sector, recommend an institutional structure, and provide tools and training to strengthen regulation. In addition, a series of consensus building workshops on the principles of private provision of services will be conducted to help ensure support from all key stakeholders. Among the strategies the government is expected to consider are directed subsidies for low-income beneficiaries and a plan to engage small providers to support privatized utilities.

“The forum provided us with a better understanding of the role of public-private partnership investments and their potential for improving the economic well-being of the SADC region.”

E. H. Msolomba
Director, Southern Africa Transport
and Communications Commission

- In *Kenya* PPIAF is providing funding to help the government design a regulatory framework for the country’s transport sector—rail, ports, roads, and airports. This regulatory work is expected to help facilitate the ongoing privatization of the Kenya Railway Corporation by providing potential private investors with clear rules for the sector. The study will establish the regulatory needs for each subsector and the optimal grouping of regulatory functions based on international experience and local conditions. The work is expected to set the standard for transport regulation in Kenya and the region, with stakeholder workshops and conferences disseminating best practices in transport regulation from around the world.
- In *Brazil*, in response to that country’s power crisis, PPIAF is funding a major initiative to address a multitude of “second generation” issues. The activity is assisting the Chamber of Energy Crisis Management in addressing urgent postcrisis challenges in the market and regulatory framework, to reinvigorate private investment and set the power sector solidly on the path to revitalization. Tasks include designing a reform strategy for the electricity wholesale market, reviewing the methodology for setting distribution tariffs, conducting an independent assessment of key regulatory roles and responsibilities, and evaluating methods for regulating tariff discounts for low-income customers.
- In *India*, in the state of Karnataka, PPIAF supported the development of a consumer network as an aid to effective regulation in the electricity sector and an action plan to integrate consumers into the regulatory process. The Karnataka Electricity Regulatory Commission had been concerned that without adequate, informed participation by consumers, there would be no effective counterbalance to the power companies. So PPIAF’s study looked at ways to strengthen consumers’ participation in the regulatory process, reviewing best practices and current approaches in the gas, water, electricity, telecommunications, and financial services sectors in Australia, South Africa, the United Kingdom, and the United States. Two meetings were held with consumer groups to look at the overarching issues and examine proposals on how to build a consumer network. In discussions with these groups the regulatory commission identified an option for creating such a network and is now implementing it under the leadership of its consumer advocate. Groups of consumer associations will be established in different zones in the state, to operate under a statewide committee.
- In *Thailand* PPIAF is supporting the development of a framework for delivering subsidies to ensure that public service obligations are met in the country’s water and wastewater sectors. This activity will determine the current burden of public service obligations in Thailand, review current best-practice methods for allocating public service obligations, and provide an order-of-magnitude estimate of the size and net benefits of the subsidy program. Although the activity focuses on water and wastewater, the concepts and instruments developed in the study will be useful across a range of infrastructure sectors.

A key element of the infrastructure reform agenda is to seek new ways of extending basic services to poor people. As part of this effort, PPIAF has been supporting work on output-based aid schemes (box 2.3).

PPIAF activities also provided assistance in preparing and putting into 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 included drafting the implementing rules and regulations for Cambodia’s power regulator and improving the design of a multisectoral regulatory agency in Gambia.

Box 2.2

Sri Lanka: Drafting Legislation for Multisectoral Regulation

In Sri Lanka PPIAF financed an activity looking at the regulatory options for infrastructure. The analysis led to a recommendation to establish a multisectoral regulatory body. After deciding to carry out that recommendation, the government requested a second PPIAF grant to draft legislation establishing the new agency.

Working closely with government counterparts, the consultants hired under this grant produced draft legislation now under consideration by Parliament. The government appointed the former national telecommunications regulator to head the program setting up the multisectoral regulator, and work is progressing rapidly on the details of establishing the agency, including human resource planning. The Asian Development Bank and the World Bank will provide more extensive support, to help the agency undertake its initial tasks.

Box 2.3

Designing Output-Based Aid Schemes

The performance of traditional public utilities in expanding and improving basic services has been disappointing. As an alternative, governments and donor agencies are exploring output-based aid schemes, which delegate the delivery of services to private entities under contracts that link the payment of subsidies to the outputs or results actually delivered.

PPIAF has played a leading role in supporting these new output-based aid initiatives. In fiscal 2001 it provided funding for the publication *Contracting for Public Services: Output-Based Aid and Its Applications*, which has served as a reference guide and starting point for designing output-based aid schemes in all areas of infrastructure. In fiscal 2002 PPIAF supported two pilot output-based aid activities in the water sector—one in Cambodia and the other in La Union Province in the Philippines. Early indications suggest that these activities will identify solutions to design and technical challenges, facilitating the rollout of output-based aid schemes to larger target groups.

In *Cambodia* the government is embarking on an ambitious plan to expand the role of the private sector in providing water services to provincial and peri-urban communities throughout the country. To provide sufficient incentives for small-scale private operators to invest in communities that would otherwise be unable to pay tariffs that fully cover costs (including connection fees), the government has decided to provide subsidies directly to private service providers for each connection made. The PPIAF-funded work is assisting in developing the bidding documents for the pilot communities, which may serve as the basis for a larger subsidy program designed to extend access to water supply to a significant share of Cambodia's poor households.

In the *Philippines* the provincial government of La Union is launching a program aimed at connecting all residents in its urban and urbanizing areas to safe, reliable piped water supply by involving the private sector in service provision. The PPIAF-funded activity will design a best-practice template for output-based aid schemes for provincial-level water supply systems. The model bidding documents produced will be tested in the Philippines but are also intended to serve as a starting point for designing future water concessions throughout the developing world with built-in output-based aid schemes.



Infrastructure Development Strategies



Governments often seek advice on framing infrastructure development strategies that take full advantage of the potential offered by private involvement. PPIAF financed 17 activities to support the development of such strategies in fiscal 2002, including analytical studies on the options for and potential benefits of private involvement. (See annex I for descriptions of all 17 activities.)

A flagship PPIAF product in this area is the Country Framework Report for the private provision of infrastructure. Workshops, roundtables, and stakeholder consultations conducted as part of the Country Framework Report process, combined with in-depth sector analyses, form the basis for 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 2002 work was under way on Country Framework Reports for Bangladesh, Bolivia, 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 subnational level. Among the projects under way or completed in fiscal 2002 are activities to develop a strategy for private participation in infrastructure in Malawi's Nacala Development Corridor and to identify options for engaging the private sector in urban water supply and sanitation in Kazakhstan (boxes 2.4 and 2.5). Other examples span a range of infrastructure sectors and regions.

- In the *Democratic Republic of Congo* PPIAF is funding a study to help assess the options for private participation in solid waste management in the city of Kinshasa. This work follows from a comparison of options and an evaluation of the legal and regulatory framework, institutional arrangements, and national policies relating to cost recovery, landfill, and recycling. The activity is aimed at developing an enabling environment for—and the institutional capacity to plan, program, and implement—sustainable solid waste collection for Kinshasa by shifting the municipality's role from one of service provider to that of facilitator and handing over the role of collecting solid waste to the private sector. The activity will use a participatory process to select an approach to private participation, conducting an in-country workshop to discuss the options outlined by the study with the different stakeholders.
- In the *Philippines* a PPIAF activity is advising the Department of Transportation and Communications on expanding access to communication and information services in rural areas. The plan being developed is aimed at improving access to telecommunications through the privatization of government-owned telecommunications infrastructure in mainly rural areas of the country.

Consensus Building

 Increasing private involvement and competition is widely acknowledged to help improve the quality of infrastructure services and people's access to those services. 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 2002 it financed four such activities (see annex I for descriptions). Activities in this area have included assistance to build broad-based consensus for reforms in several countries.

Box 2.4

Malawi: Developing a Strategy for Private Participation in Infrastructure in the Nacala Development Corridor

In Malawi PPIAF is assisting the secretariat of the Nacala Development Corridor in defining a development strategy. Focused mainly on identifying the development corridor's investment potential and prospects for generating growth and reducing poverty, the activity is analyzing the possibilities for involving the private sector in infrastructure and service provision in water, transport, energy, and telecommunications.

The governments of Malawi and Mozambique have decided to jointly promote the Nacala Development Corridor through a spatial development initiative—a concept aimed at developing the economic potential of a geographic area by upgrading key infrastructure through “anchor projects” based on public-private partnerships. The PPIAF-funded study is expected to produce a strategy for private participation that will facilitate private investment in the Nacala Development Corridor.

Box 2.5

Kazakhstan: Private Sector Options in Water Supply and Sanitation in Small and Medium-Size Cities

In Kazakhstan a PPIAF activity is analyzing the potential for increasing private participation in water supply and sanitation in small and medium-size cities (with populations of 10,000–100,000). As the study progresses, a series of workshops and roundtable discussions will be held with government officials, utility operators, private sector partners, and consumers to map out how to most effectively implement private sector strategies.


The study is expected to yield policy recommendations and an action plan for the government that will support new and innovative arrangements for involving the private sector in water and sanitation. A note on lessons learned will be prepared and widely disseminated—both globally and in Europe and Central Asia—to contribute to the dialogue on emerging practices in the private provision of services in small cities.

- In *Ethiopia* a workshop brought together more than 150 participants drawn from the central governments, ministries, road and other transport agencies, and the private sector in Ethiopia, Ghana, Tanzania, and Uganda. The workshop shared lessons and global experience in promoting private participation in the roads sector and built consensus on appropriate strategies for developing public-private partnerships in the sector. It also presented the PPIAF-sponsored *Toolkit for Public-Private Partnerships in Highways*, a multimedia educational tool designed to assist policymakers in developing and emerging economies in engaging the private sector in developing, operating, and maintaining roads.



- In *Colombia* funding from PPIAF enabled the government to convene a high-level seminar in Bogotá on Regulation and Structural Reforms in Water Supply and Sanitation for some 350 participants. Designed to help the government strengthen the regulatory framework for water and sanitation, the seminar provided regulatory expertise to key national decisionmakers (from the National Regulatory Commission, the Superintendence of Public Services, and sector ministries), officials from state and local governments, and representatives of both public and private utilities. The three-day seminar addressed the applicability and implications of different regulatory options. Decisionmakers from sector agencies coordinated panel discussions with participation by international experts and sector stakeholders. After three days of discussion and debate participants drafted an action plan for moving to a new regulatory framework and adopting structural reforms to improve the population's access to services and the quality of those services through public-private partnerships.

Capacity Building

 Governments that have relied on the traditional model of public utilities and transport authorities are often ill equipped to design and put into place arrangements for private provision 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.

In fiscal 2002 PPIAF approved 10 activities whose primary focus was capacity building, ranging from assistance in establishing a multisectoral regulatory agency in Armenia to major capacity building initiatives in Africa and South Asia (box 2.6). (See annex I for a description of all 10 activities.) Other examples of PPIAF support for building capacity within governments include global and regional activities.

Box 2.6
Armenia: Establishing a Multisectoral Regulatory Agency

Armenia aims to ensure access to affordable and reliable water and energy services as a central part of its poverty alleviation strategy—and recognizes access to transport networks and telecommunications services as essential for sustainable economic growth. The government is implementing a progressive agenda of private participation in infrastructure—as demonstrated by its privatization of electricity distribution companies and its entry into a management contract for water supply and sewerage services in Yerevan. Moreover, the government accepts independent regulation as an effective means of reducing the potential for corruption and unfair practices, and it has announced an intention to create a single regulatory authority for energy, telecommunications, and water and wastewater services.

Experience with independent regulation of the energy sector has led to a growing understanding of the need for an apolitical entity to review license applications, issue licenses, monitor license requirements, set prices in accordance with consistent principles, hold public consultations, and protect consumers from potential abuses of monopoly power. Earlier, PPIAF funded a preliminary assessment, completed last year, of the institutional requirements for a comprehensive regulatory framework. Now PPIAF is assisting the government in establishing a legal and regulatory structure for telecommunications and water and wastewater services by extending the functions of the energy regulator. This framework is expected to facilitate private participation in these key sectors, broadening access to services, improving service quality, and leading to a better quality of life for consumers.

PPIAF assistance has focused on developing regulatory methodologies, drafting supporting laws and regulations, and designing an institutional development plan for the agency. It has made two main contributions to the legal framework:

- A telecommunications law that will provide for a nondiscriminatory interconnection regime, equitable universal access policy, tariff rebalancing and regulation, and suitable procedures for allocating frequencies, numbering, and rights of way.
- A law governing water and wastewater services and bulk water supply that will complement and further define the current water code.



“This is expected to increase national access to electricity in Uganda from the current 4% of the population

- A *global* initiative developed training materials on economic and financial modeling for utility regulators. As the need for independent regulatory capacity grows, the skills required to balance tariffs become more important. Those skills can be developed through a variety of means, including classroom training, workshops, interaction, and experience. To complement this training, regulators need access to guides and references on the economic and financial modeling required to bring tariffs into equilibrium. In a joint initiative with the World Bank Institute, PPIAF financed the development of training materials in English, French, and Spanish for water and power utility regulators. The materials include an interactive CD-ROM with an explanatory lecture, a self-administered quiz, detailed reference guides, and a working financial and economic model for testing the impact on tariffs or firms' financial viability of countless variables relating to the supply of or demand for power or water.
- In *West Africa*, in the countries of Cameroon and Côte d'Ivoire, PPIAF funding helped train the technical staff of regulatory agencies in designing and implementing pricing systems for electricity and telecommunications utilities using price and revenue caps. Combining lectures with case studies, the training used a full financial model to illustrate most of the concepts taught and to explore in detail the welfare implications of the regulatory regime as well as its financial implications for the regulated companies. The training complemented the goals of the African Forum for Utility Regulation (AFUR), which aims to support the development of effective utility regulation in Africa.

During fiscal 2002 PPIAF continued to support both AFUR and the South Asia Forum for Infrastructure Regulation (SAFIR)—institutions that PPIAF helped to establish (box 2.7). These bodies provide crucial links supporting the sustainable delivery of the agenda for pro-poor private participation in infrastructure developed and promoted by PPIAF donors.

As governments continue to embrace private participation in delivering infrastructure services, utility regulators emerge as central players, tasked with balancing and protecting the legitimate competing interests of consumers, investors, and governments. By strengthening the regulatory oversight functions of their members, AFUR and SAFIR can support reforms bringing the benefits of private participation and market competition while increasing poor people's access to infrastructure services.

Nascent regulatory bodies have limited human and financial resources. Thus regional associations like AFUR and SAFIR can be invaluable, enabling member regulators to share experience and emerging best practices in utility regulation. AFUR and SAFIR perform this task through intensive training courses, newsletters and related technical publications, and focused Web-based discussion groups. Their performance has already had a critical impact on the sustainability of reforms in utility regulation in their regions.



to 10% over the next 10 years.” Emmanuel Nirikindi Director for Utility Reform, Uganda

The African Forum for Utility Regulation (AFUR) and the South Asia Forum for Infrastructure Regulation (SAFIR) aim to support the development of effective utility regulation in their regions by sharing knowledge, stimulating research, building a network of utility regulators, and exchanging ideas on workable regulatory solutions that would benefit the poor.

AFUR began in September 2000 as an informal gathering of regulators eager to exchange lessons of experience, expand cooperation on regulatory issues, and boost regulatory capacity in Africa. AFUR focuses primarily on cross-cutting issues in the regulation of energy, telecommunications, and water and sanitation. SAFIR, which began a year earlier with a meeting involving some 100 senior regulatory staff, covers regulatory issues in water, transport, electricity, natural gas, and telecommunications.

PPIAF has supported AFUR by funding three workshops. Held in Nairobi, Kenya, in September 2000, the first workshop discussed regional trends in utility regulation, the challenges faced by regulators, and opportunities for expanding regional cooperation among regulators. That meeting drew senior representatives from 22 regulatory bodies in 15 countries.

With the U.S. Agency for International Development and France's Institut Francophone de l'Energie, PPIAF cofunded a second workshop in May 2001, in Accra, Ghana. The workshop focused on the role of consumers in the regulatory process, identified strategies for raising consumers' awareness, discussed examples of their effective involvement in regulatory decisionmaking, and identified the implications for the structure of regulatory institutions.

In November 2001 PPIAF sponsored a third AFUR workshop, in Dakar, Senegal. Thirty-six regulators from 25 African countries discussed how to manage relationships between regulators and service providers, how to monitor and enforce compliance, how to craft rules and decisions, and how to promote transparency and avoid conflicts of interest. That meeting formed the AFUR Consultative Group to develop AFUR's work program.

AFUR was formally launched on November 7, 2002, in Pretoria, South Africa. The launch meeting was attended by representatives of 29 regulatory authorities from 35 African countries as well as representatives from such partners as the Norwegian Agency for Development Cooperation, U.S. Agency for International Development, and World Bank Group.

PPIAF funded SAFIR's first intensive, two-week training program, which focused on the theory and practice of infrastructure regulation. Conducted by leading experts in utility regulation, this training program used regional and international case studies to showcase infrastructure regulatory practices that work. Held in Agra, India, in February 2000, the program attracted more than 70 regulators from four countries in South Asia. Over the next two years SAFIR conducted two more training programs—one in India and another in Sri Lanka.

SAFIR has completed a work program that included several workshops on emerging regulatory needs in the region. Two workshops held in Dhaka, Bangladesh, looked at judicial issues affecting regulation and at regulatory strategies. Another workshop, held in India, discussed issues in implementing multiyear tariffs.

SAFIR charges fees for its services, and PPIAF provided initial support for producing SAFIR's newsletters and operating its Web site. By keeping its members abreast of the latest developments in utility regulation, SAFIR continues to meet its mandate and has seen its membership grow. For more information on AFUR and SAFIR, consult their Web sites at <http://www.worldbank.org/afur> and <http://www.safir.teri.res.in>.

Support to Pioneering Projects and Transactions

During this third 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.

In fiscal 2002 PPIAF funded 17 activities that, while classified under another primary deliverable, addressed issues close to the transaction end of the chain of events that PPIAF supports. These included the development of model documents in Tajikistan and Uzbekistan for private provision of urban water supply and the design of a model license and contract in Cambodia for the private provision of small-scale infrastructure services under an output-based subsidy scheme.



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 activities to identify and disseminate emerging best practices worldwide, including toolkits, regional and international conferences, and case studies and model documents. In fiscal 2002 it supported four activities focusing on emerging best practices (see annex I for descriptions).



Toolkits for use by policymakers and practitioners in reforming infrastructure 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. Thus far PPIAF has provided financing for sectoral toolkits in ports and highways and for thematic toolkits to address labor issues and the challenges of hiring and managing advisers for private participation in infrastructure (box 2.8). The toolkits can be accessed through PPIAF's Web site (<http://www.ppiaf.org>).

Recent activities to identify, disseminate, and promote emerging best practices range from national and regional workshops and conferences to a study to support the development of a framework for financing merchant power plants in Asia (box 2.9).

- In *India*, in the state of West Bengal, PPIAF is supporting a series of workshops and seminars on options for private participation in infrastructure. Emphasizing both regional and international best practices, the events will bring together key stakeholders, policymakers, global experts, and individuals involved in successful public-private partnerships. A selected group of stakeholders and policymakers will undertake field visits to see how these partnerships work in practice.
- In a *global* initiative PPIAF funded a detailed analysis of promising examples of private provision of rural infrastructure. The goal was to inform policymakers and practitioners about what works and why, to help them formulate interventions appropriate to their situations. The analysis reviewed the private provision of rural power, water, and telecommunications services in Africa, Asia, and Latin America. Papers and presentations compared and contrasted different approaches to expanding and improving service delivery, such as small-scale electricity licensing in Cambodia and the rural electrification strategy of Guatemala, which seeks to extend a national grid. The results were presented at a conference in London in July 2002.

- In *Asia* PPIAF is supporting a regional workshop and conference on developing pro-poor policies to enhance private participation in infrastructure. Many of the concepts are now well understood, but what is lacking are practical experience in applying these principles and dissemination of best practices. Building on several activities that PPIAF has funded, notably the May 2000 London conference and the December 2000 Paris workshop, the workshop will focus on the general rationale and need for enhanced private participation. The conference will detail the practical aspects of enhancing private participation in infrastructure for low-income households. The overall aim of the activity is to help develop an understanding of the interaction between private participation in infrastructure and the poor, with special reference to Asia.

Box 2.8

Toolkit for Public-Private Partnerships in Highways

A country's road network is often its most valuable asset in monetary terms. It may also be the most expensive asset to develop, rehabilitate, and maintain. And it may be either the greatest aid to the efficient movement of goods and people—or the greatest bottleneck. Throughout the developing world, traditional approaches to road management have failed to maintain and develop road networks that meet the needs of economic growth. These failures have adversely affected export competitiveness, the cost of delivered goods, vital links among communities, and the free movement of people.

Experience over the past decade or so has confirmed that the private sector can make an important contribution to improving road infrastructure. Its participation can mean greater access to management expertise, stronger incentives for efficient operation and technological innovation, better financial performance, and greater responsiveness to users. And access to private financing can help free up scarce public resources for other purposes.

But these benefits bring with them challenges for governments, including the need to transform the public sector. Governments must define a transport policy framework setting out the objectives and guidelines for sector reform and the actions for promoting and facilitating private involvement in road projects. A comprehensive toolkit can help—by structuring the topic and providing analytical tools and case studies through a single platform.

The *Toolkit for Public-Private Partnerships in Highways*, produced by PPIAF in a CD-ROM format and posted on the Web, is an interactive multimedia product to assist developing country policymakers and transport professionals in understanding and identifying options for engaging the private sector in developing, maintaining, operating, and financing roads. Its first module aids the diagnosis of:

- Strengths and weaknesses in the performance of the roads sector.
- The capacity of the private sector.
- The likely supply response to a particular opportunity.
- The political and social context for reform and private sector engagement.

The toolkit provides guidance on how to structure projects in line with government objectives while maintaining a balance among the scope of the project, the autonomy of the private actors, the implications for bundling road assets, and risk allocation. The toolkit also spells out guidelines for designing cost recovery systems and choosing financing options. And it explores the public sector's ongoing role in the roads sector, the design of regulatory and contractual frameworks, and the development of bidding and selection procedures. Finally, interactive financial models help policymakers and project designers conceptualize sustainable public-private partnerships.

The rollout of the toolkit began in fiscal 2002. In June 2002 the toolkit served as the centerpiece of a PPIAF-funded workshop in Addis Ababa, Ethiopia, in which World Bank transport specialists and private sector experts presented lessons and global experience in promoting private participation in the roads sector. Driven by the toolkit's modular structure, open discussions were held on feasible strategies for public-private partnerships in the sector, with more than 40 senior government officials from Ethiopia, Ghana, Tanzania, and Uganda participating. The toolkit is also being rolled out at the annual meeting of the Permanent Committee of the International Road Council.

PPIAF is supporting the development of a framework for financing merchant power plants in developing countries in Asia. A study will describe the power sector reforms initiated in Asian developing countries, provide a comprehensive understanding of the merchant power plant model as an option for restructuring the power sector, and outline lessons from experience with merchant power plants in industrial and developing countries.

The activity is aimed at broadening and strengthening the understanding of the merchant power plant model among policymakers and regulators—knowledge expected to contribute to the success of power sector restructuring and the efficiency of competitive electricity markets, expanding opportunities for private participation in the power sector.

THE IMPACT OF PPIAF'S ACTIVITIES

Since PPIAF's inception, the Program Council has emphasized the importance of achieving a measurable impact on project design and funding decisions. PPIAF recognizes that attaining the ultimate objective of private participation in infrastructure—eliminating poverty—depends on many factors. Still, it asks all applicants for PPIAF funding to identify goals for their activities in the short, medium, and long term that can measure progress toward the crucial milestones on the way to that objective. Thus the impact of PPIAF's portfolio, although only three years old at the end of fiscal 2002, can already be identified—in the drafting and passage of legislation, the design of innovative transactions, the establishment and strengthening of institutions related to private participation in infrastructure, the training of regulators and policymakers, and the public education and consensus building around the agenda for private participation in infrastructure.

Legislation

PPIAF has funded the drafting of 16 laws related to reform strategies and regulation for the infrastructure sector as a whole or for ports, power, telecommunications, or water and sanitation. By the close of fiscal 2002, 7 of these laws had been passed by the parliaments or assemblies of the countries or areas for which they had been prepared:

- ALGERIA • electricity law and telecommunications policy reform (both passed).
- CAMBODIA • legislation for a water regulatory agency.
- CROATIA • two laws on the reform of concession arrangements (one passed).
- GUYANA • water authority legislation (passed).
- KOSOVO • water concession law.
- PARAGUAY • telecommunications privatization law (passed) and water and sanitation law.
- PERU • ports law.
- SLOVAKIA • legislation to establish a multisectoral regulator.
- THAILAND • legislation for a state holding company.
- TURKEY • three laws relating to electricity (one passed).
- UGANDA • rural electrification strategy and law (passed).

Transactions

An analysis of ongoing and completed activities at the end of fiscal 2002 found that PPIAF has supported the design and implementation of 14 transactions for single projects and 16 transactions for multiple projects.

New Institutions

PPIAF funds have also supported work to establish or strengthen nine institutions vital to the sustainable growth of private participation in infrastructure. Located in Africa, Europe and Central Asia, Latin America, and South Asia, these regulatory authorities and financing facilities are both sector specific and multisectoral in scope:

- African Forum for Utility Regulation.
- Emerging Africa Infrastructure Fund (formerly the Africa Private Infrastructure Financing Facility).
- South Asia Forum for Infrastructure Regulation.

- Water regulator in Guyana.
- Regulatory commission in Latvia.
- Water regulator in Paraguay.
- Multisectoral regulator in Slovakia.
- Energy market regulatory authority in Turkey.
- Rural electrification fund in Uganda.

Training of Policymakers and Regulators

PPIAF funds have been a vital resource for training, benefiting more than 1,200 government officials and regulators. PPIAF-funded training courses, workshops, networks, and interactive materials have equipped policymakers and regulators to meet the technical challenges of designing and managing contracts and setting and negotiating tariffs. By the end of fiscal 2002 these activities included:

- The AFUR and SAFIR initiatives to develop regional associations of regulators through training sessions, newsletters, Web sites, and other capacity building activities.
- In Peru, models, handbooks, and training to strengthen the capacity of the transport regulatory agency to set and review tariffs for ports, airports, and rail services.
- In conjunction with the World Bank Institute, the development of interactive training materials in English, French, and Spanish for water and power regulators. This material will serve as a key part of the World Bank Institute's regulatory training.
- In urban Tajikistan and Uzbekistan, training for officials in the skills needed to manage water contracts with private service providers.

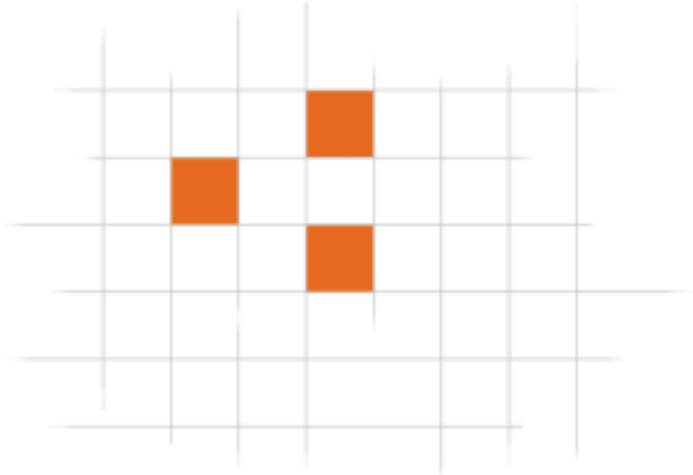
Dissemination of Emerging Lessons

More than 6,000 people have been exposed to best practices through attendance at regional and international conferences such as these:

- A three-day conference on political and regulatory risk, held in Rome, attracted more than 300 practitioners in infrastructure finance, regulation, and project design.
- A conference on Infrastructure for Development: Private Solutions and the Poor, cosponsored by PPIAF, the U.K. Department for International Development, and the World Bank, drew 200 participants from more than 40 countries to look at pro-poor options for private participation in infrastructure.
- In Latin America a water and sanitation conference shared best practices in sector reform with policymakers, utilities, labor unions, and nongovernmental organizations.
- In southern Africa a regional forum discussed the potential for private participation in transport and communications. Participants included private investors and regional government officials.
- In Addis Ababa, Ethiopia, a workshop brought together more than 150 participants from that country as well as Ghana, Tanzania, and Uganda to discuss the potential role of the private sector in developing roads and highways.

The results of these conferences—along with the toolkits, papers, and case studies used to drive discussion and develop arguments—continue to be disseminated and are made available through PPIAF whenever possible. PPIAF's Web site (<http://www.ppiaf.org>) has become a resource for the development community, providing access to many PPIAF-funded reports, branded products, and project summaries ("Gridlines"). In fiscal 2002 the site averaged 150,000 hits a month.





Section3



Governance Structure

PPIAF is a multidonor technical assistance facility aimed at helping developing country governments improve the quality of their infrastructure by involving the private sector. Owned and directed by contributing donors, PPIAF is a stand-alone facility with its own mandate, governance structure, and work program.

PPIAF is governed by a Program Council made up of representatives of contributing donors (figure 3.1). PPIAF remains open to receiving contributions from official donors, international financial institutions, and other official agencies. An independent Technical Advisory Panel 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.

Organizational Structure Of PPIAF

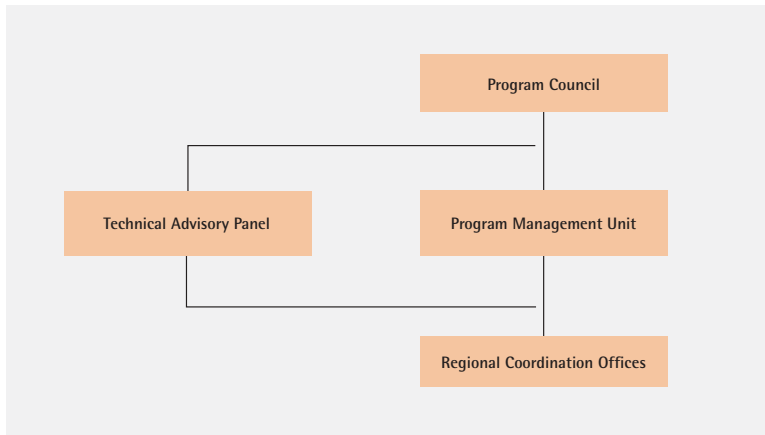


Figure 3.1

THE PROGRAM COUNCIL

As provided in the PPIAF program charter of July 1999, amended in 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. On June 30, 2002, there were 12 members (table 3.1). Members may also contribute to Non-Core Funds, whose use is restricted to particular themes, activities, or regions.



Table 3.1 Members of the PPIAF Program Council as of June 30, 2002

BILATERAL

Canada (Canadian International Development Agency)
 France (Ministry of Foreign Affairs)
 Germany (Bundesministerium für Wirtschaftliche Zusammenarbeit und Entwicklung, or BMZ)
 Japan (Ministry of Finance)
 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 Program Council meets once a year to review the strategic direction of the PPIAF program, its achievements, and its financing requirements. Chaired by the World Bank's vice president for private sector development and infrastructure, the Program Council 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 June 6, 2002, the Program Council held its third annual meeting since PPIAF was launched in July 1999. Japan's Ministry of Finance and the Japan Bank for International Cooperation hosted the meeting in Tokyo on behalf of that country. At the meeting the staff of the Program Management Unit presented an overview of program operations; government representatives from India, Thailand, and Uganda reported on selected PPIAF activities; the Technical Advisory Panel presented its ex post evaluation of selected activities; and the donors pledged continuing support to PPIAF.

Preceding the meeting was a half-day workshop, also on June 6, focusing on the provision of small-scale rural infrastructure and on consensus building efforts that strengthen regulators' accountability and the government's role in supporting a competitive and consumer-responsive market structure. The workshop included presentations by donor representatives, government officials, and private sector 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 in fiscal 2002, holding its third meeting in Washington, D.C., on December 7, 2001, and its fourth meeting on June 5, 2002, in Tokyo. Panel members also participated in the Program Council's third annual meeting, also held in June 2002 in Tokyo.

In fiscal 2002 the Technical Advisory Panel conducted an ex post evaluation of completed PPIAF activities that reflect the work program's diversity in regions, sectors, types of activities, and levels of funding and offer ease of replication (box 3.1):

- Public-Private Options for Developing, Operating, and Maintaining Highways: A Toolkit for Policymakers (global).
- Completion and Final Publication of the Port Reform Toolkit (global).
- How to Hire Expert Advice on Private Sector Involvement in Infrastructure: A Toolkit for Policymakers (global).
- Increasing Access to Electricity in Rural Areas: Private-Public Solutions (Nicaragua).
- Strategic Options for Rural Electrification (Uganda).
- Introducing Competition and Reforming Regulation of Railways (China).
- Experience of Rail Concessions: Lessons for Policymakers (global).
- Private Transactions in Water and Sanitation: A Pro-Poor Approach (global).
- Improving the Access, Quality, and Efficiency of Infrastructure: A Country Framework Report (Honduras).
- Expanding Opportunities for Private Investment in Transport (southern Africa).
- Restructuring and Regulating the Electricity and Natural Gas Industry (Azerbaijan).

The Cambodia Country Framework Report is a key step in the process of identifying the priorities for development across infrastructure sectors. It is also an important part of our plan to communicate our commitment to increased investment to the international and domestic private sectors.

His Excellency Keath Chon
Ministry of Economy and Finance
Royal Government of Cambodia

Box 3.1

Assessing Past Performance—and Looking to the Future

At the Program Council's third annual meeting the Technical Advisory Panel presented the results of its second ex post evaluation, covering 11 activities, and provided inputs to the fiscal 2003 Indicative Work Program presented by the Program Management Unit.

The panel's report on the ex post evaluation highlighted the successes of PPIAF and noted its ability to leverage resources and ensure value for money in its interventions. It also pointed to ways to further improve the Program Management Unit's processes and actions. For example, the panel urged the Program Management Unit to recognize constraints faced by developing countries in implementing reform and to assist them in adapting emerging best practices to address those constraints. And it recommended that PPIAF-funded activities continue to increase the emphasis on consultation with private sector stakeholders, consumer groups, and others as part of PPIAF's efforts to promote pro-poor solutions in infrastructure.

The panel noted that PPIAF has clearly addressed concerns cited in the previous year. To broaden the dissemination of information on the impact of activities, for example, PPIAF has upgraded its Web site and made more products available on CD-ROM. And to strengthen impact assessments, PPIAF has produced short notes on completed PPIAF activities ("Gridlines") and posted them on its Web site.

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 Program approved by the Program Council (see annex 2 for the fiscal 2002 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 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 field-based Regional Coordination Offices.



THE REGIONAL COORDINATION OFFICES

The Program Council approved the establishment of three field-based Regional Coordination Offices—in Nairobi (Kenya), Pretoria (South Africa), and Singapore—to help execute the PPIAF work program. 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 the 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).

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

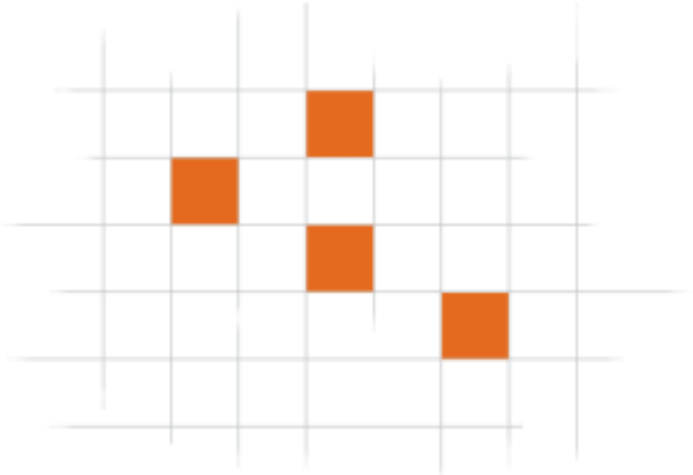
Applications for PPIAF funding should contain indicators against which the quality of the proposed activity can be assessed. Larger activities should usually include appropriate consultative and quality review mechanisms.

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.



Section 4



Finances and Resource Mobilization

PPIAF's focused governance structure helps it to channel resources, in response to demand, to beneficiary governments to assist them in designing programs for involving the private sector in infrastructure. Supporting this approach to providing technical assistance is an innovative financing structure.

FUNDING

PPIAF has a two-tier financial structure: a Core Fund and Non-Core Funds. The Core Fund is used for activities falling within PPIAF's approved work program and may be applied to governance costs as well as program activities. All donor contributions are designated for the Core Fund unless otherwise indicated. The Core Fund consists of untied funds—that is, funds not subject to donor restrictions, such as on the nationality of consultants hired for PPIAF-funded activities. For regional development banks, however, the program charter, as amended, recognizes statutory procurement requirements limiting the consultants eligible to bid for PPIAF-funded activities that the banks sponsor.

Core Fund contributions by eligible organizations start at \$250,000 a year. All contributions to the Core Fund are in cash, although PPIAF may consider accepting contributions in kind in limited cases.



Non-Core Funds are subject to donor restrictions relating to themes, activities, or regions. A donor may set up a Non-Core Fund after making the minimum Core Fund contribution and with the consent of the Program Management Unit. Three donors have set up Non-Core Funds: Japan (for selected countries in East Asia and for the operating costs of the Regional Coordination Office in Singapore), Switzerland (for selected countries in Europe and Central Asia), and the United Kingdom (for selected countries in Asia and Sub-Saharan Africa and for the operating costs of the Regional Coordination Offices in Nairobi, Kenya; Pretoria, South Africa; and Singapore). However, Switzerland and the United Kingdom have confirmed their intention to channel all future contributions to the Core Fund. Sweden has made a firm pledge to establish a Non-Core Fund for countries in Sub-Saharan Africa in fiscal 2003.

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

MEMBER CONTRIBUTIONS

From the inception of PPIAF to June 30, 2002, 12 donors contributed a total of \$48 million to PPIAF (including more than \$1 million of net investment income), and by June 2002 they had pledged about \$92.4 million (table 4.1). These 12 donors are the Asian Development Bank (ADB), Canada, France, Germany, Japan, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom, the United Nations Development Programme (UNDP), and the World Bank. In addition, the African Development Bank has signaled its intention to come on board as a new donor in fiscal 2003.

Table 4.1 Member Contributions to PPIAF: Confirmed Pledges and Receipts as of June 30, 2002 (US\$ thousands)

(US\$ thousands)

SUMMARY

Type of funding	Pledges	Receipts
Core	64,075	33,458
Non-Core	28,282	13,501
Net investment income ^a	n.a.	1,026
Total funding	92,357	47,985

CORE FUNDING

Member	Pledges	Duration ^b	Receipts
ADB	1,000 ^c	January 2001–December 2003	250
Canada	500	July 1999–June 2001	500
France	766	July 2000–June 2003	266
Germany	750	January 2001–December 2003	228
Japan	7,435 ^d	July 1999–June 2003	6,435
Netherlands	1,500	July 2001–June 2004	500
Norway	1,250	July 1999–June 2003	750
Sweden	1,011	July 2000–June 2004	261
Switzerland	3,150	July 1999–June 2005	1,805
UNDP	In kind ^e	July 1999–November 2002	n.a.
United Kingdom	36,033	July 1999–June 2005	13,533
World Bank	10,930	July 1999–June 2003	8,930
Total Core funding	64,075		33,458

NON-CORE FUNDING

Member	Pledges	Duration ^b	Receipts
Japan	2,608 ^f	March 2001–June 2003	1,608
Sweden	1,000 ^g	July 2002–June 2003	– ^g
Switzerland	3,082 ^h	July 1999–June 2005	2,415
United Kingdom	21,592 ⁱ	July 1999–June 2005	9,478
Total Non-Core funding	28,282		13,501

n.a. Not applicable.

Note: The figures in the table may vary slightly from those reported in previous annual reports because amounts are pledged in own currency and then converted to U.S. dollars at the time of transfer.

a. Pursuant to annex 1, paragraph 4 of the trust fund agreements.

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

c. Includes \$250,000 in contributions in kind (not included in the total).

d. Includes \$1.4 million in unallocated cash from the Infrastructure Action Program.

e. UNDP's in-kind contribution—the provision of accommodations for the Regional Coordination Offices in Nairobi and Pretoria—is not included in the total.

f. Targeted to countries in East Asia.

g. Targeted to countries in Sub-Saharan Africa. No receipts as of June 30, 2002.

h. Targeted to countries in Europe and Central Asia.

i. Targeted to countries including in Asia and Sub-Saharan Africa.

EXPENDITURES

PPIAF's expenditures fall into three main categories: program activities, program administration (Program Management Unit), and Regional Coordination Offices. In fiscal 2002 (July 1, 2001, to June 30, 2002) expenditures on these activities amounted to \$11.9 million (table 4.2). Between fiscal 2001 and fiscal 2002 disbursements for program activities increased by 36 percent, from \$6.9 million to \$9.3 million (table 4.3). Meanwhile, expenditures of the Program Management Unit remained steady despite expanded dissemination efforts (table 4.4). And those of the Regional Coordination Offices rose from \$0.97 million to \$1.1 million. This 15.7 percent increase reflects a full year's activities by the Singapore Regional Coordination Office.

Table 4.2 PPIAF expenditures for Program Activities and Administration, Fiscal 2002

(US\$ thousands)

Expense category	Expenditures
Program activities	9,337
Program Management Unit	1,475
Regional Coordination Offices	1,126
Total	11,938

Table 4.3 PPIAF Program Activity Expenditures, Fiscal 2002

(US\$ thousands)

Expense category	Expenditures
Consultant fees and contractual services	7,619
Travel	576
Staff costs	1,066
Other expenses	76
Total operational and overhead expenses	9,337

Table 4.4 PPIAF Program Management Unit and Regional Coordination Office Expenditures, Fiscal 2002

(US\$ thousands)

Expense category	Expenditures
Program Management Unit core administration ^a	813
Technical assessments of activities ^b	26
Consultant fees and contractual services ^c	253
Travel ^d	179
Other expenses ^e	204
Regional Coordination Offices ^f	1,126
Total operational and overhead expenses	2,601

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 Sub-Saharan Africa and shares these costs for the Singapore office equally with Japan. The UNDP provides accommodations for the two offices in Sub-Saharan Africa as part of its in-kind contribution to PPIAF, while the government of Singapore provides office space for the regional office in that country.

Table 4.5 PPIAF Cash Position as of June 30, 2002

(US\$ thousands)

Receipts	47,985
Less previous two years' expenditures	14,673
Less current year's expenditures	11,938
Subtotal: available cash	21,374
Less commitments with reported signed contracts	10,296
Total available funds	11,078

CASH POSITION

From PPIAF's receipts of \$48 million, \$5.4 million was disbursed in fiscal 2000, \$9.3 million in fiscal 2001, and \$11.9 million in fiscal 2002. The remaining \$21.4 million was available for funding activities approved during fiscal 2002. Of this \$21.4 million, about \$10.3 million had been committed by signed contracts, while the other \$11.1 million will be used for outstanding committed consulting fees (table 4.5). Even with this additional funding, on June 30, 2002, there was a shortfall in short-term cash available for approved activities for fiscal 2002. However, procedures are in place to ensure that 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.

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; exercised due diligence with respect to the administration, management, and monitoring of the funds awarded for the activity; and ensured that all expenses and disbursements accord with World Bank procurement and administrative guidelines, which the PPIAF donors have agreed to follow.



“The project should stimulate the development of new businesses and the construction of new social facilities and infrastructure, that otherwise would not be existent.”

Luis Velazquez
Director, National Energy Commission
Nicaragua

Annex 1



Approved PPIAF Activities for Fiscal 2002

Country	Activity	Activity description	Deliverable	Approved funding	Target completion date	Type of funding
SUB-SAHARAN AFRICA						
Angola	Country Framework Report	Preparing a comprehensive study of the country's infrastructure, identifying opportunities and measures for improving the regulatory framework to strengthen private participation in the sector, and organizing roundtable discussions involving the government, private sector, and potential investors to build consensus among all stakeholders.	Infrastructure development strategies	\$700,000	8/3/03	U.K. Non-Core
Burkina Faso	Assessment of the Regulatory Regime for Private Participation in Infrastructure	Developing a strategy for establishing a new regulatory framework for infrastructure services.	Capacity building	\$277,400	7/31/03	Core
Congo Dem. Rep. of	Private Participation in Solid Waste Systems in Kinshasa	Preparing a report analyzing the viability of private solid waste management in Kinshasa and conducting an in-country workshop to demonstrate best practices in solid waste management.	Infrastructure development strategies	\$214,800	2/28/03	U.K. Non-Core
Côte d'Ivoire	Update of the Country Framework Report	Engaging the new government in a dialogue on private participation in infrastructure through workshops while updating the Country Framework Report that was started in 1999 and remained in draft form because of country circumstances.	Infrastructure development strategies	\$350,000	7/31/03	Core
Ethiopia	Workshop on Private Participation in the Water Sector	Conducting a workshop to discuss the opportunities and challenges of private participation in water and sanitation, and disseminate technical guidance on institutional arrangements and criteria for accessing the government's Water Resources Fund, established to help urban areas respond to sectoral needs using cost recovery principles and private participation.	Policy, regulatory, and institutional reforms	\$71,400	11/30/02	Core
Ethiopia	Workshop on Private Participation in Transport and Roads	Conducted a workshop in Addis Ababa in which sector experts presented lessons and global experience in promoting private participation in roads. With senior government officials from Ethiopia, Ghana, Tanzania, and Uganda participating, the workshop held open discussions on feasible strategies for public-private partnerships in the road sector.	Consensus building	\$72,000	Completed	Core

Country	Activity	Activity description	Deliverable	Approved funding	Target completion date	Type of funding
SUB-SAHARAN AFRICA						
Gambia	Assessment of the Regulatory Regime for Private Participation in the Main Infrastructure Sectors	Assisting the government in building consensus on the proposed regulatory framework for private participation in infrastructure and improving the design of a multisectoral regulatory agency.	Policy, regulatory, and institutional reforms	\$314,200	12/1/03	Core
Kenya	Options for Private Participation in the Water Supply and Sewerage Operation in Kisumu	Assisting the national government and the municipality of Kisumu in identifying options for private participation in the provision of water supply and sewerage services to all types of consumers, including low-income groups in unplanned and unserved settlements.	Infrastructure development strategies	\$230,750	5/31/03	Core
Kenya	Privatization of the Railway Corporation	Providing the government with a framework for implementing independent regulation of the rail and road sectors, and facilitating the privatization of the railway company.	Policy, regulatory, and institutional reforms	\$393,355	5/30/03	Core
Kenya	Workshop on Power Sector Reform	Preparing a workshop to allow stakeholders to address key issues relating to energy sector reform, including the reforms needed and any obstacles to exploiting opportunities.	Consensus building	\$73,315	11/30/02	U.K. Non-Core
Lesotho	Country Framework Report	Preparing a comprehensive study of the country's infrastructure, identifying opportunities and measures for improving the regulatory framework to strengthen private participation in the sector, and organizing roundtable discussions involving the government, private sector, and potential investors to build consensus among all stakeholders.	Infrastructure development strategies	\$400,800	5/31/03	U.K. Non-Core
Malawi	Developing a Strategy for Private Participation in Infrastructure in the Nacala Development Corridor	Preparing a strategy paper on private participation in infrastructure in the Nacala Development Corridor and an investors conference to showcase the economic potential of the corridor.	Infrastructure development strategies	\$205,600	3/31/03	U.K. Non-Core
Rwanda	Country Framework Report	Preparing a comprehensive study of the country's infrastructure, identifying opportunities and measures for improving the regulatory framework to strengthen private participation in the sector, and organizing roundtable discussions involving the government, private sector, and potential investors to build consensus among all stakeholders.	Infrastructure development strategies	\$395,000	11/30/02	U.K. Non-Core

Country	Activity	Activity description	Deliverable	Approved funding	Target completion date	Type of funding
SUB-SAHARAN AFRICA						
Rwanda	Country Framework Report	Preparing a comprehensive study of the country's infrastructure, identifying opportunities and measures for improving the regulatory framework to strengthen private participation in the sector, and organizing roundtable discussions involving the government, private sector, and potential investors to build consensus among all stakeholders	Infrastructure development strategies	\$395,000	11/30/02	U.K. Non-Core
Sierra Leone	Options for Private Participation in the Power Sector	Reviewing options for the financing, ownership, and operation of the power sector to determine the feasibility of private participation.	Infrastructure development strategies	\$187,850	2/28/03	Core
Tanzania	Private Participation in Rural Telecommunications	Preparing a study assessing the policy requirements for private participation in delivering rural telephone services.	Policy, regulatory, and institutional reforms	\$345,540	9/30/03	U.K. Non-Core
Tanzania	Privatization of the Tanzania Electric Supply Company	Assisted the Ministry of Minerals and Energy in concluding a performance-based management contract with a private firm for the financial and technical operations of the Tanzania Electric Supply Company.	Capacity building	\$75,000	Completed	U.K. Non-Core
Sub-Saharan Africa	African Forum for Utility Regulation, Phase 3	Financed a high-level meeting of African utility regulators in Dakar, Senegal, in November 2001 under the auspices of the African Forum for Utility Regulation (AFUR). Participants formed a consultative group that will design a work plan for AFUR.	Capacity building	\$228,500	Completed	U.K. Non-Core
Sub-Saharan Africa	African Infrastructure Development Company	Assessing the potential viability of an African infrastructure development company that could accelerate the development of infrastructure projects throughout the region by leveraging private sector financing and management skills.	Infrastructure development strategies	\$230,750	12/5/02	Core
Sub-Saharan Africa	Establishing a Clearinghouse for the West African Regional Electricity Market	Presenting options and recommending a strategy for creating a clearinghouse for the West African regional electricity market.	Policy, regulatory, and institutional reforms	\$74,750	2/28/03	Core
Sub-Saharan Africa	Regional Seminar on Strategic Options for Infrastructure Regulation	Financing a seminar for government officials, private operators, and consumers from Cape Verde and Guinea-Bissau to develop a consensus on the role and scope of economic regulation in the infrastructure sectors and to establish an approach toward a multisectoral regulatory agency.	Consensus building	\$74,900	12/11/02	Core

Country	Activity	Activity description	Deliverable	Approved funding	Target completion date	Type of funding
SUB-SAHARAN AFRICA						
Sub-Saharan Africa	Southern Africa Development Community Investors Conference on the Telecommunications Sector	Conducting a forum to explore telecommunications investment opportunities, project profiles, and infrastructure to promote growth and integration in the Southern Africa Development Community.	Infrastructure development strategies	\$193,200	11/3/02	Core
Sub-Saharan Africa	Training of Regulatory Agencies on Financial Regulation	Trained the technical staff of regulatory agencies in designing and implementing pricing systems for electricity and telecommunications utilities using price and revenue caps. The two training courses, held in April 2002 in Abidjan, Côte d'Ivoire, and Yaoundé, Cameroon, complemented the goals of the African Forum for Utility Regulation.	Capacity building	\$104,500	Completed	Core
EAST ASIA AND PACIFIC						
Cambodia	Output-Based Aid in Water Supply	Preparing model bidding documents for water provision under an output-based aid arrangement, to assist the government in expanding the private sector's role in providing water services to provincial and peri-urban communities.	Policy, regulatory, and institutional reforms	\$74,700	12/31/02	Core
Cambodia	Preparation of Private Power Policy Framework	Helping the government establish a clear policy for private investment in the power sector, identifying the roles of government agencies in approving and selecting projects, and preparing procedures and model contractual documents.	Policy, regulatory, and institutional reforms	\$393,500	12/3/02	Core
Indonesia	Benchmarking of Water Utilities	Improving the benchmarking system for water utilities to ensure self-sustainability and accurate information for assessing the financial, technical, and organizational performance of water utilities.	Policy, regulatory, and institutional reforms	\$292,000	1/31/03	Core
Indonesia	Determination of Appropriate Institutional Arrangements for Toll Road Development	Preparing a study and an in-country workshop to determine appropriate institutional arrangements for developing toll roads.	Policy, regulatory, and institutional reforms	\$420,000	9/30/03	Core
Lao PDR	Power Sector Reform Workshop	Organizing a workshop to develop an action plan for implementing the government's policy on private participation in the electricity sector, to build consensus on the policy and the role of the private sector, and to build capacity for implementing the policy.	Policy, regulatory, and institutional reforms	\$72,500	12/3/02	Core

Country	Activity	Activity description	Deliverable	Approved funding	Target completion date	Type of funding
EAST ASIA AND PACIFIC						
Philippines	Communication Strategy for Rural Power	Providing a communication needs assessment for rural power sector reform in the country, to aid understanding of how public communication mechanisms affect power sector reform, particularly rural power sector reform.	Consensus building	\$74,500	12/31/02	Core
Philippines	Facilitating Private Sector Involvement in Metro Manila's Solid Waste Management Sector	Providing technical advisory support and skills development for the national government's newly formed Office of the Presidential Adviser for Strategic Projects to facilitate a sustainable solid waste management program in Metro Manila involving the private sector.	Capacity building	\$75,000	7/25/02	Core
Philippines	Implementation Strategy for the Electricity Regulatory Commission	Preparing a work program for the newly established Electricity Regulatory Commission and an electricity industry regulatory statement.	Policy, regulatory, and institutional reforms	\$320,000	10/31/02	Core
Philippines	Organizing a Contract Administration Unit under the Local Government Urban Water and Sanitation Program	Designing an organizational structure for a contract administration unit to regulate private participation in infrastructure at the local government level, building the capacity of the unit's staff, and preparing operating policies, procedures, and guidelines for mobilizing private capital at the local level.	Policy, regulatory, and institutional reforms	\$73,000	10/31/02	Core
Philippines	Output-Based Aid Scheme for a Water Supply Project	Designing a best-practice template for regional water supply using output-based aid schemes. A pilot in La Union Province will provide a basis for designing future water projects in other decentralized environments.	Policy, regulatory, and institutional reforms	\$75,000	11/27/02	Core
Philippines	Privatization of Rural Telecommunications Facilities	Preparing a strategy for using the private sector to improve access to telecommunications in mainly rural areas of the country. The strategy will be presented to stakeholders at a workshop.	Infrastructure development strategies	\$68,200	12/1/02	Core
Thailand	Framework for Directed Subsidies in the Water and Wastewater Sectors	Developing a comprehensive framework and related instruments for delivering subsidies to ensure that the country's water and wastewater sectors meet universal service obligations. The concepts and instruments developed in the study will be applicable across a range of utilities and infrastructure sectors.	Policy, regulatory, and institutional reforms	\$70,000	12/15/02	Core

Country	Activity	Activity description	Deliverable	Approved funding	Target completion date	Type of funding
EAST ASIA AND PACIFIC						
Thailand	Strategy for Expanding Rural Water Infrastructure	Preparing a strategy for expanding rural water infrastructure and mobilizing private capital through microfinance schemes implemented by the Population and Community Development Association, a local nongovernmental organization.	Infrastructure development strategies	\$230,000	12/31/02	Core
Vietnam	Pilot Private Participation Transaction in the Water Sector	Preparing transaction documents for a pilot competition for providing water services to unserved district towns in two provinces; and providing support to provincial water companies and their local authorities in the bidding, bid evaluation, and award of the design-build-lease contracts.	Policy, regulatory, and institutional reforms	\$406,000	11/10/03	Core
East Asia and Pacific	Asia-Pacific Economic Cooperation (APEC) Privatization Forum: Vietnam Workshop	Supported a three-day workshop for Cambodia, the Lao People's Democratic Republic, and APEC member countries to discuss institutional and process issues relating to private participation in infrastructure.	Infrastructure development strategies	\$74,775	Completed	Core
East Asia and Pacific	Conference on Private Participation in Infrastructure and the Poor with a Focus on Asia	Organizing a workshop on pro-poor policies for enhancing private participation in infrastructure, to help develop an understanding of the interaction between private participation in infrastructure and poverty. The workshop will build on several other PPIAF-funded activities.	Emerging best practices	\$464,500	10/30/02	Core
East Asia and Pacific	Framework for Financing Merchant Power Plants in Asia	Developing a framework for financing merchant power plants in developing countries, to help broaden understanding of the merchant power plant model and expand opportunities for private participation in the power sector.	Emerging best practices	\$400,000	12/31/02	Core
EUROPE AND CENTRAL ASIA						
Armenia	Establishing a Multisectoral Regulatory Agency	Assisting the government in designing an efficient, transparent, and cost-effective multisectoral regulatory body that would facilitate private participation in infrastructure and improve access to and consumer satisfaction with infrastructure services.	Capacity building	\$355,600	12/10/02	Core
Azerbaijan	Private Sector Involvement in the Provision of Water and Wastewater Services in Greater Baku	Preparing a strategy for private provision of water and wastewater services in the Greater Baku area, including designing subsidies targeted to poor households and developing a plan to engage small service providers to support privatized utilities; conducting consensus building workshops; and providing training for government officials on regulatory issues.	Policy, regulatory, and institutional reforms	\$680,000	12/31/03	Swiss Non-Core

Country	Activity	Activity description	Deliverable	Approved funding	Target completion date	Type of funding
EUROPE AND CENTRAL ASIA						
Bulgaria	Strengthening the Regulatory Framework for New Gas Distribution Networks	Helping to strengthen the regulatory commission by establishing clear, transparent rules and regulations for selecting and contracting private providers of new gas distribution networks.	Policy, regulatory, and institutional reforms	\$225,220	12/31/02	Core
Kazakhstan	Private Sector Options in Water Supply and Sanitation in Small and Medium-Size Cities	Supporting the government's efforts to find an appropriate solution, involving greater private participation, to the water and wastewater crisis in small and medium-size towns (with populations of 10,000–100,000).	Infrastructure development strategies	\$456,000	10/30/03	Core
Lithuania	Private Participation in Water and Wastewater Service Provision	Reviewing options and recommending an approach for structuring and developing private participation in water and wastewater service provision, with a focus on poverty reduction through directed subsidies or output-based schemes for low-income users.	Infrastructure development strategies	\$288,000	12/31/02	Core
Ukraine	Restructuring, Regulatory, and Private Participation Strategies for Kieveno	Designing a policy and regulatory framework to improve the efficiency, management, and operations of Kieveno, the combined heat and power utility company of Kiev.	Policy, regulatory, and institutional reforms	\$210,000	2/14/03	Core
LATIN AMERICA AND THE CARIBBEAN						
Brazil	Improving Electricity Regulation and Market and System Operations	Undertaking advisory work for the Chamber of Energy Crisis Management to identify regulatory reforms required to increase competition in the power market and revitalize the electricity sector.	Policy, regulatory, and institutional reforms	\$467,975	3/31/03	Core
Brazil	Strategic Options for Private Participation in Roads, Light Rail, and Gas Distribution in Pernambuco	Conducting a study to help the government of Pernambuco attract private investment in the state's roads, passenger rail, and gas distribution to increase the efficiency, availability, and affordability of these services.	Infrastructure development strategies	\$324,930	12/30/03	Core
Peru	Technical Assistance to Prepare National Ports Law	Providing legal and technical advice on the port concessioning process to aid in developing the National Ports Law and preparing studies to improve the concessioning process for the Matarani Port Terminal.	Policy, regulatory, and institutional reforms	\$70,000	12/22/02	Core

Country	Activity	Activity description	Deliverable	Approved funding	Target completion date	Type of funding
SOUTH ASIA						
India	Consumer Advocacy Unit of Karnataka Electricity Regulatory Commission	Preparing a study on the development of a consumer network in Karnataka to aid effective regulation and developing an action plan for involving consumers in the regulatory process.	Policy, regulatory, and institutional reforms	\$73,000	12/3/02	Core
India	Law in Rajasthan to Facilitate Private Investment in Infrastructure	Preparing a report with draft legislation that would provide an enabling framework for build-operate-transfer (BOT) projects in the state of Rajasthan.	Policy, regulatory, and institutional reforms	\$75,000	12/23/02	Core
India	Options for Private Participation in Infrastructure in West Bengal	Preparing workshops and seminars involving state stakeholders and global experts and arranging field visits for selected stakeholders and policymakers.	Emerging best practices	\$74,000	12/30/02	Core
Nepal	Country Framework Report	Preparing a comprehensive study of the country's infrastructure, identifying opportunities and measures for improving the regulatory framework to strengthen private participation in the sector, and organizing roundtable discussions involving the government, private sector, and potential investors to build consensus among all stakeholders.	Infrastructure development strategies	\$521,550	12/20/03	U.K. Non-Core
Pakistan	Developing an Appropriate Tariff Regulatory Regime for the Natural Gas Regulatory Authority	Developing benchmarks to introduce indirect competition in the regulated gas sector through effective yardstick regulation, cultivating benchmarking analysis skills in the gas regulatory authority, and providing training in key areas to foster institutional development.	Policy, regulatory, and institutional reforms	\$293,700	12/31/02	Core
Sri Lanka	Drafting Legislation for Multisectoral Regulation	Helping to draft legislation to establish a regulatory authority covering rail, power, water, and airports.	Policy, regulatory, and institutional reforms	\$74,800	12/15/02	Core
South Asia	South Asia Forum for Infrastructure Regulation (SAFIR): Consensus Building on Regulatory Reviews	Organizing workshops and disseminating information on the South Asia Forum for Infrastructure Regulation (SAFIR), funding the development of a Web site and the publication of newsletters, and strengthening the SAFIR Secretariat as it prepares for self-sustainability.	Capacity building	\$74,800	12/30/02	Core
South Asia	Strengthening Infrastructure Regulation and Financing, Phase 2	Organizing a training course in Goa, India, aimed at sharing knowledge and best practices in building institutional capacity, and sharing international expertise in regulation and financing of private participation in infrastructure to promote long-term growth and reduce poverty.	Capacity building	\$55,000	12/31/02	Core

Country	Activity	Activity description	Deliverable	Approved funding	Target completion date	Type of funding
GLOBAL						
Global	Certification Program for Infrastructure Regulation	Evaluated the sustainability of a certification program for regulatory staff that would signal their skills. The activity included assessing needs, analyzing the financial viability of the proposed certification program, exploring options for governance, and suggesting bounds for the body of knowledge to be certified.	Capacity building	\$55,000	Completed	Core
Global	Training CD-ROM for Economic and Financial Assessment of Electricity Distribution Companies	Prepared a CD- and Web-based capacity building tool for regulation of electricity distribution companies and prepared regulatory staff for price reviews and contract renegotiations by using the tool to assess and forecast companies' economic and financial performance.	Capacity building	\$55,000	Completed	Core
Global	Framework for Public Support to Private Infrastructure	Reviewing the ways in which governments of developing and transition economies support private participation in infrastructure and how these could be used to mitigate risk for the private sector.	Emerging best practices	\$30,000	12/20/02	Core

Annex2



PPIAF Work Programs for Fiscal 2002 and 2003

(percentage share of program)

	Fiscal 2002 Indicative Work Program	Fiscal 2002 Actual Work Program	Fiscal 2003 Indicative Work Program
Activities in key areas of action	73	81	73
Infrastructure development strategies	28	33	28
Policy, regulatory, and institutional reforms	28	37	28
Consensus building	8	2	7
Capacity building	7	9	8
Support to pioneering projects and transactions	2	0	2
Identification, dissemination, and promotion of emerging best practices	10	6	11
Conferences	1	3	4
Toolkits	6	0	4
Other	3	3	3
Project Management Unit expenditures	17	13	16
Total	100	100	100

Annex 3

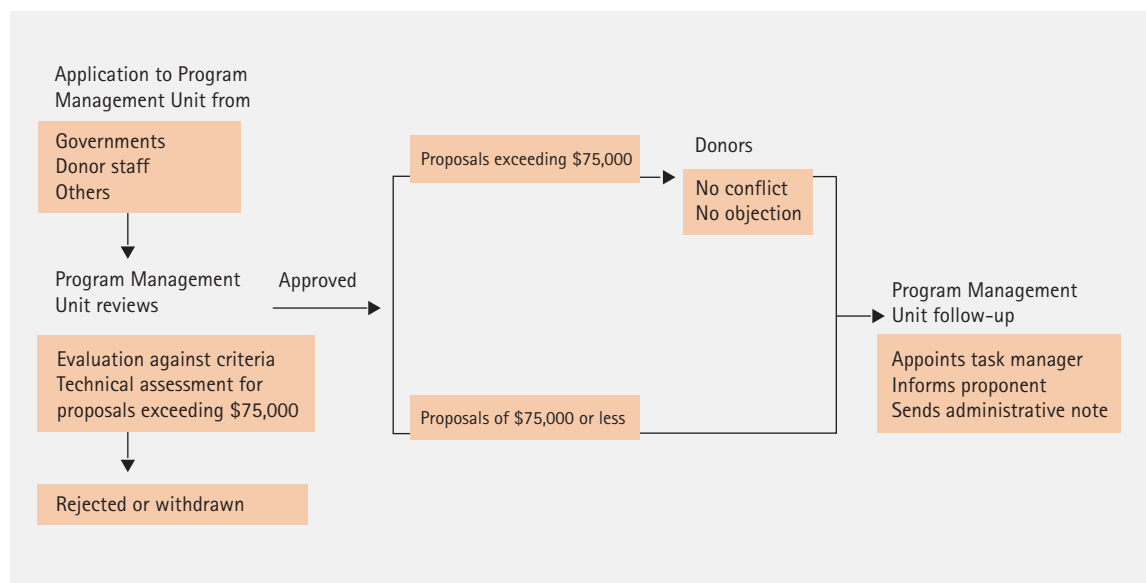


Process for Evaluating and Approving Proposals for PPIAF Assistance

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.

Figure A3.1

Application Process for PPIAF Assistance



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 correspond to the scope of work outlined in the detailed terms of reference. The application form—together with supporting information—is available in an electronic format on the PPIAF Web site and in a paper format that is disseminated widely.

B. INITIAL SCREENING

7. The Program Management Unit will undertake an initial screening of each proposal 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 the nature of the 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 will be considered on a rolling basis, with no requirement for an assessment relative to other proposals through 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 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 for urgent requests with the agreement of the Program Council on a "no objection" basis.
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 in the proposal, 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 will 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 done 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 that 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.

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



HELPING TO ELIMINATE POVERTY



