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Annual Report 2003





 **PPIAF**

Τὸ Ἰνστιτούτο Πρωτογενούς Παιδείας Ἑλλάδος

HELPING TO ELIMINATE POVERTY

AND

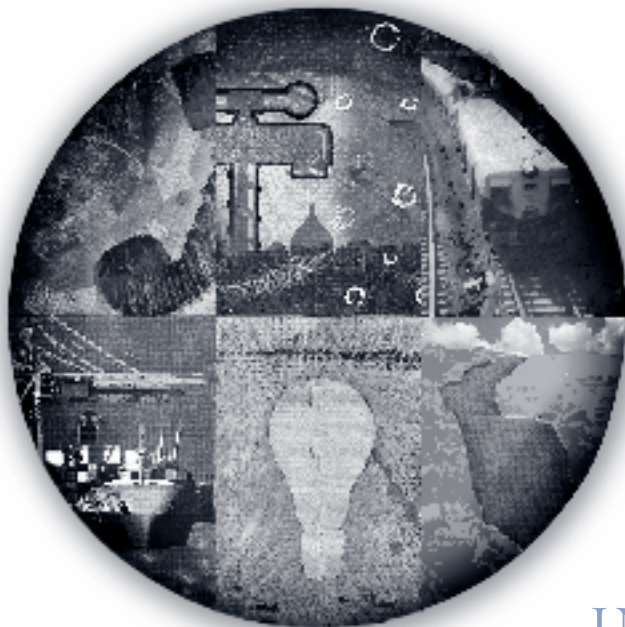
achieve

SUSTAINABLE DEVELOPMENT

THROUGH

private involvement

IN INFRASTRUCTURE



THE IMPACT OF PPIAF'S ACTIVITIES

Since PPIAF's inception the Program Council has emphasized the importance of achieving a measurable impact. Accordingly, all applicants for PPIAF funding are required to identify short-, medium-, and long-term goals for their activities that can measure progress toward their intended objectives. Thus the impact of PPIAF's portfolio, though only four years old at the end of fiscal 2003, 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 25 sets of laws and regulations related to reform strategies and regulation for the infrastructure sector as a whole or for a particular subsector. By the close of fiscal 2003, 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).
- KENYA · railway privatization bill.
- KOSOVO · water concession law.
- NIGERIA · natural gas act.
- PARAGUAY · telecommunications privatization law (passed) and water and sanitation laws.
- PERU · ports law.
- PHILIPPINES · water sector law.
- SLOVAKIA · legislation to establish a multisectoral regulator.
- SRI LANKA · water services reform bill.
- 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 2003 found that PPIAF has supported work on 30 transactions, including design and implementation. Of these, 11 have been awarded, and the other 19 are being developed or are close to being awarded. These transactions include management contracts and leases in water and sanitation; auctions of mobile telecommunications licenses; small-scale rural output-based and community infrastructure contracts; privatizations of national railroads and power utilities; and long-term concessions for roads, ports, and water systems.



Reform Strategies

As a result of PPIAF-funded strategy recommendations, 11 countries have adopted or are now implementing 14 different sector reforms in water, power, gas, telecommunications, or transport. These policies involve core strategies for private provision of infrastructure relating to market structure and competition, rural investment, subsidy design, regulatory frameworks, and capacity building.

New Institutions

PPIAF funds have also supported work to establish or strengthen 20 institutions vital to the sustainable growth of private participation in infrastructure. Located in Africa, East Asia, Eastern Europe and Central Asia, Latin America, and South Asia, these regulatory authorities and financing facilities are both sector specific and multisectoral in scope. Among these institutions:

- ADERASA (Association of Water and Sanitation Regulatory Agencies of the Americas, Latin America and the Caribbean).
- African Forum for Utility Regulation.
- Emerging Africa Infrastructure Fund (formerly the Africa Private Infrastructure Financing Facility).
- Regional Utility Regulatory Network (East Asia and Pacific).
- 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 Regulators and Policymakers

PPIAF funds have been a vital resource for training, benefiting about 1,500 regulators and government officials. 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 2003 such activities had included:

- Providing training for East African regulatory agencies on key institutional issues in effective regulation, alternative regulatory models, and tariff formulation in the electricity sector.
- Holding a workshop in the Middle East for regional governments, donors, and private sector representatives on policy and financial issues relating to the region's water and energy sectors.
- In conjunction with the World Bank Institute, training infrastructure regulators in Latin America in techniques for measuring productivity and efficiency.

Dissemination of Emerging Lessons

PPIAF has conducted more than 30 international workshops and 150 national workshops on topics of sector reform and private participation. These workshops have been attended by nearly 7,000 stakeholders in private participation in infrastructure—investors, financiers, journalists, operators, regulators, donor advisers, government officials, and representatives of consumers, labor groups, and nongovernmental organizations. A representative sample of these events includes:

- A high-level conference on options for infrastructure reform in Kenya that attracted key government officials, private operators, donors, and members of civil society.
- A three-day conference on political and regulatory risk, held in Rome, that attracted more than 300 practitioners in infrastructure finance, regulation, and project design.
- The conference “Infrastructure for Development: Private Solutions and the Poor,” cosponsored by

PPIAF, the U.K. Department for International Development, and the World Bank, which drew 200 participants from more than 40 countries to look at pro-poor options for private participation in infrastructure.

- A water and sanitation conference in Latin America that shared best practices in sector reform with policymakers, utilities, labor unions, and nongovernmental organizations.
- A regional forum in southern Africa that discussed the potential for private participation in transport and communications. Participants included private investors and regional government officials.
- A workshop in Addis Ababa, Ethiopia, that 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 2003 the site averaged about 140,000 hits a month.



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Section 1



The Challenge and the Promise of Private Participation in Infrastructure

There is clear and growing evidence from throughout the world that the provision of basic infrastructure services plays a central role in promoting economic growth. The quality of a country's infrastructure has a significant effect on industrial productivity, costs, and competitiveness—and thus on investment, employment, and export earnings. Equally, infrastructure services can have a direct and immediate effect on living standards and poverty. Potable water and sanitation can dramatically reduce debilitating and life-threatening disease. Electricity can transform the quality of life for urban and rural citizens. Better roads can connect isolated communities to markets that buy their produce and supply their household needs. And modern telecommunications can empower poor people by putting them in touch with a range of markets and services as well as the broader society.

Yet all around the developing world governments and consumers have been struggling with the formidable challenge of delivering these services in ways that are affordable, sustainable, and efficient. In the 40 years from the post–World War II period to the early 1990s the most common way to provide basic infrastructure services was through publicly owned and managed monopolies. These often took the form of companies that looked to government subsidies for financing along with limited user charges.



Under this model little progress was made in expanding coverage beyond middle-income urban neighborhoods. Despite developing countries spending \$250 billion a year—about 4 percent of GDP—on infrastructure services, there are few public utility success stories. More than 1 billion people in developing countries lack access to clean water, nearly 1.2 billion lack adequate sanitation, and around 1.2 billion lack access to grid-based power. Moreover, political intervention in the setting of tariffs and the lack of competitive pressures led to chronic losses for many public utilities. These losses meant more requests for government support at a time when many developing countries were grappling with severe macroeconomic crises. As a result, public utilities had little ability to maintain existing services or, more important, to expand services to those most in need.

In the 1990s, disillusioned with the public monopoly model, governments turned to the private sector to take on more of the risks associated with providing infrastructure. And they began to transform their roles accordingly—from exclusive financiers, managers, and operators of infrastructure to facilitators and regulators of services provided primarily by private firms. Some of these trends are highlighted in the section below.

Trends in Private Investment in Infrastructure, 1990–2002

In 1990 annual investment in infrastructure projects with significant private involvement amounted to a mere \$18 billion in developing countries.¹ But investment grew rapidly in the following years, peaking at nearly \$130 billion in 1997. The number of projects also grew strongly—from just over 65 in 1990 to 361 in 1997. Much of this growth was driven by the privatization of infrastructure companies in Latin America and by mobile telecommunications and greenfield power plants in East Asia. In Eastern Europe and Central Asia

1. 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 2002 U.S. dollars.

most countries introduced some form of private participation in infrastructure, driven in some cases by the requirements for accession to the European Union. Private investment in other regions—South Asia, Sub-Saharan Africa, the Middle East and North Africa—was less marked. Significantly, upper-middle-income countries accounted for the largest share (51 percent) of the cumulative investment in 1990–2002.

Following the East Asian financial crisis in 1997 and other crises in the developing world, investment in private infrastructure projects entered a downward trend. Indeed, by 2002 investment flows had returned to the levels of 1994. While the reduction has not been uniform across sectors, every sector of infrastructure has seen a marked decline (figure 1.1). At the regional level, Latin America and East Asia saw the greatest levels of investment during the mid-1990s and so have seen the sharpest drop in private infrastructure projects (figure 1.2). For the poorest countries the trend has been less bleak; flows to low-income countries have remained fairly constant since early 1998 (figure 1.3).



Factors Contributing to the Recent Decline in Private Investment

What accounts for the decline in private investment? The reasons are complex, multifaceted, and often country specific. But several underlying factors go some way toward explaining the trend.

Investment declined in part simply because the more developed middle-income countries had reached the end of the private participation cycle. In telecommunications, for example, the most attractive companies and licenses had been sold, while in the power sector the best deals for independent power projects or wholesale privatization in East Asia and Latin America had been identified and completed in the peak of activity leading up to 1997. What remained were opportunities in more challenging, politically sensitive, and high-risk sectors, such as roads and water.

Another factor has been the climate of uncertainty and nervous, risk-averse capital markets stemming from the financial crises in East Asia, the Russian Federation, and Argentina; growing political uncertainties in the Middle East; and a run of high-profile failures by major strategic infrastructure investors in industrial countries. This climate had an immediate impact on the infrastructure sectors that rely on long-term financing for projects in emerging market economies. With the bear market dominating since early 2000, lenders have grown increasingly skeptical about providing long-term debt while traditional infrastructure companies have had difficulty raising funds through share offerings. Yet even as some traditional infrastructure companies retreat from emerging market economies, smaller, specialized infrastructure companies—such as Acea in Italy and Aguas de Portugal—appear to be looking to fill some of the gaps. Regional firms and investors are also taking part. In the past two years, for example, the Net Group from South Africa, Barmek Holdings of Turkey, and Tata Power and BSES from India have all entered infrastructure sectors in emerging market economies.

Still another factor is the complex political economy of private involvement in infrastructure, thrust to the fore in recent years by controversial transactions in both industrial and developing countries. Resistance to new initiatives, sometimes culminating in violence, has deepened discontent among the general public in

Annual Investment in Infrastructure Projects with Private Participation in Developing Countries by Sector, 1990–2002

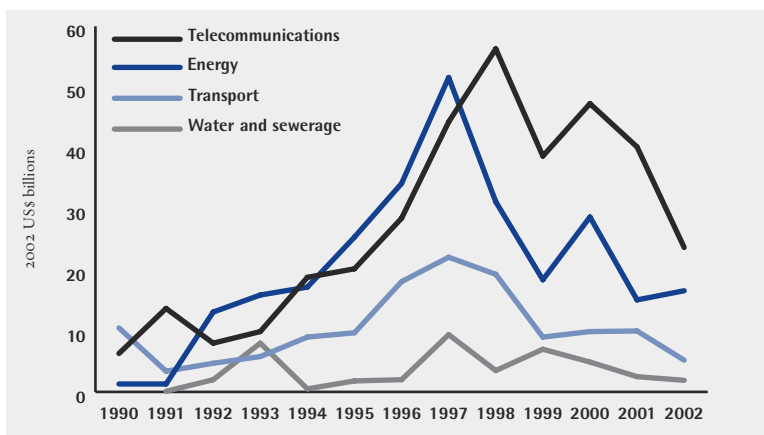


Figure I.1

Source: World Bank, PPI Project Database.

Annual Investment in Infrastructure Projects with Private Participation in Developing Countries by Region, 1990–2002

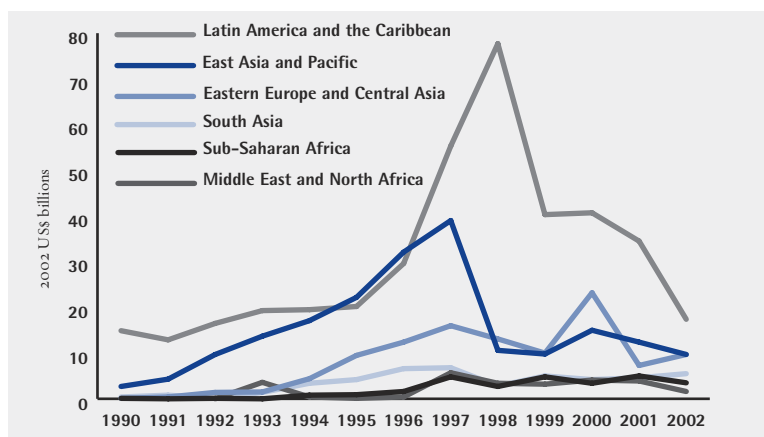


Figure I.2

Source: World Bank, PPI Project Database.

Annual Investment in Infrastructure Projects with Private Participation in Developing Countries by Income Group, 1990–2002

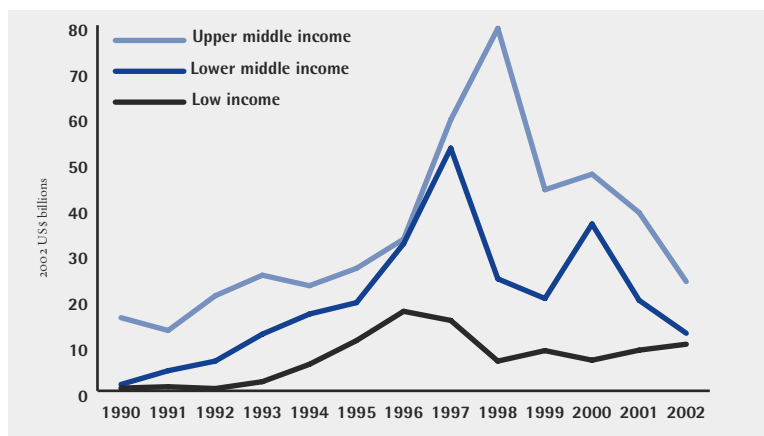


Figure I.3

Source: World Bank, PPI Project Database.

many countries. Most affected have been sectors such as power and water and sanitation, which provide services that consumers often view as basic human rights rather than as something for which they must pay. Significantly, controversies over prices have been less common in sectors that do not serve the general public, such as ports, airports, and freight rail.

But it is also fair to say that during the height of the investment boom governments and investors tended to lose sight of the realities underlying politically sensitive infrastructure projects with private participation. On the government side, some officials wrongly assumed that introducing private sources of finance would solve all their infrastructure problems—including expanding access to services, perhaps the most important poverty reduction goal in many developing countries. All too often governments viewed privatization as a panacea allowing them to avoid difficult reforms such as tackling inefficient, loss-making infrastructure companies. Indeed, there is strong evidence that introducing well-structured private participation will lead to efficiencies—and that returning to the old public monopoly model offers little hope for better results.



The real challenge facing policymakers is determining who pays for a service—taxpayers or consumers. This dilemma stems from the underpricing of services when they were in the public sector; on average, water utilities recovered 30 percent of operating costs, and electricity utilities 60 percent. Some new private projects have not addressed this dilemma well, with steep price increases in the initial years leading to opposition to the projects and to their subsequent cancellation. In many instances private participation forced these cost-of-service contradictions into the open, and the privatization agenda was blamed as the culprit.

On the investor side, many firms underestimated the political power that governments would need to develop and sustain credible macroeconomic policies. Investors also failed to anticipate the resistance that governments would face from consumers in honoring their commitments to adjust tariffs over time. Creative pricing policies—based on pass-through clauses, take-or-pay arrangements, or indexation to handle devaluation risks—did not always turn out to be politically acceptable. As a result, many private infrastructure projects—particularly in East Asia and Latin America—have been renegotiated in the past few years.

The Benefits of Private Involvement in Infrastructure

In reviewing some of the reasons for the recent decline in private investment in infrastructure, it is important not to lose sight of the underlying message: when carefully planned and executed, private participation in infrastructure can yield significant benefits.

Better Access to Services

Private firms respond to financial incentives encouraging them to improve coverage for customers served by existing systems and to invest in new networks to meet growing demand—as long as the service is potentially profitable. These incentives are most apparent where firms are subject to pressures from operational competition or at least competition for the right to serve a market. Moreover, international evidence suggests

that private firms may outperform public companies because of superior technical and management skills combined with financial discipline and pressure for more realistic pricing policies.

With proper regulation, these advantages can return benefits to consumers and taxpayers. In telecommunications, networks have expanded markedly in most of Latin America and Central Europe. Even in the poorer, more challenging markets—such as Kenya, Mauritania, and Uganda—the entry of private firms has led to significant growth in connections in their first years of operation. From Kenya to Paraguay, and from Cambodia to El Salvador, wherever public utilities have ignored periurban communities and isolated villages, local entrepreneurs have often filled the gap by mobilizing their own equity and providing electricity, sanitation, and even treated water from small private systems.

Greater Efficiency—and Thus Greater Quality

With appropriate regulation in place, private companies have been able to attract finance and use retained earnings from stronger financial performance to invest in improving the quality of service. Dozens of ports throughout the developing world—including in China, India, Southeast Asia, and Latin America—can now track and move cargo quickly and efficiently, reducing waiting times and uncertainty for shippers. But before private participation in these ports, almost none had so much as a container crane. Similarly, from Côte d'Ivoire to Brazil and Mexico, money-losing railroads that have allowed private operators have seen significant rehabilitation, better service, an overall fall in prices, and a rebound in cargo activity.

In electricity private participation in service provision in Chile, Gabon, Hungary, and Peru has brought significant improvements in the quality of service. Similarly, consumers of water in Cartagena and Barranquilla in Colombia, La Paz in Bolivia, and the urban centers of Senegal have seen marked increases in the availability and quality of water after the introduction of private operators. These improvements contribute to the welfare of consumers through greater convenience and reliability, and expanded access to safe water and sanitation brings with it verifiable benefits for health and the environment. Private participation in telecommunications, even more widespread than in water or power, has set new standards of acceptability for quality, access, and cost in voice and data transmission around the world.



Looking Ahead—Private Participation in a Challenging Investment Climate

Looking back at the past four years of private participation in infrastructure, it is clear that we are at a crossroads. The global investment climate undoubtedly needs to improve for there to be a significant return to long-term private investment in infrastructure. Many traditional operating companies face pressure from shareholders to adopt more conservative strategies, while financial institutions seek to minimize their exposure to market and operational risks. At the same time the demand for basic services—particularly for poor people in low-income countries—far outstrips supply.

In the water sector, meeting the Millennium Development Goal of halving the share of the population in developing countries without access to improved water supply and sanitation by 2015 will require approximately doubling annual investments, to about \$30 billion. Other infrastructure services—transport, electricity, telecommunications—are indirectly yet vitally linked to achieving the Millennium Development Goals. Transport and electricity, for example, are key to developing exports and ensuring that poor people have access to markets.

In developing countries governments now provide 75 percent of the funding for investment in infrastructure services, but many lack the means to extend coverage—and many are learning that the inefficiencies of public provision hamper the expansion of services. Leveraging private investment and efficiency is therefore essential. Returning to traditional public sector funding is not an option, and doing nothing will surely mean failure to achieve the Millennium Development Goals.

Looking ahead, it will be important for government policymakers, donors, the private sector, and consumers to focus on the steps needed to pave the way for public-private partnerships in infrastructure. Although international experience provides some clear lessons that point the way forward, no single model addresses all the political, economic, and financial challenges to these complex relationships. In setting policies governments must therefore confront the question, What are the fundamental elements of a model for providing affordable, efficient, and sustainable infrastructure services?



First, all governments must face up to the issue of how to pay for services. Subsidies may be necessary or warranted where consumers are too poor to afford basic service, where there is a perceived need to accelerate the rolling out of services, or where providing a service has clear elements of a public good. But if prices are too low to recover costs, and if tax revenues cannot support sufficient subsidies to meet social and political goals, user fees need to be raised or more cost-effective services introduced.

Second, and the greatest political challenge, governments need to establish a credible regulatory framework, particularly for services not benefiting from significant competition. Economic regulation in infrastructure has a critical role in determining *what* decisions are made: if prices are too low, investors will not stay—and if they are too high, consumers will suffer. But regulatory credibility also depends on *how* decisions are made. A regulatory institution's balance between independence and accountability, the regulators' skills and credibility, and the regulators' way of communicating their decisions can all have a dramatic impact on the investment climate.

Third, governments need to pay more attention to pro-poor concerns at the design stage of public-private infrastructure projects. There is no guarantee that private provision on its own will return efficiency gains to consumers—particularly to those who are poor and vulnerable. To ensure that it does requires flexibility in the design of market structures, something that governments have sometimes paid too little attention to in the rush to attract large-scale international investors. Past shortcomings have included difficult terms of exit,

untargeted access requirements, and inflexible regulatory regimes that discouraged small-scale and informal service providers.

Finally, governments need to develop solutions to the currency mismatch problem that continues to plague private infrastructure projects, particularly those in water, roads, and power. While most of the capital costs for these projects are in hard currency, the revenue stream from consumers is in local currencies. Thus in the absence of local capital markets that can provide long-term local currency financing and hedging opportunities, this mismatch makes projects highly vulnerable to exchange rate fluctuations. To address this issue, policymakers and donors are experimenting with such models as guarantee mechanisms, local currency bonds, and credit enhancement schemes to provide backstopping when project revenues fall below agreed minimum thresholds. And investors are reducing their gearing levels and looking for more equity funding. Another important approach is to allow smaller-scale infrastructure projects for both rural and periurban environments—projects that have a far better chance of being financed through local capital markets or from the equity of entrepreneurial investors.

The Role of the Public-Private Infrastructure Advisory Facility

Recognition of the limits of past approaches was what prompted the establishment of the Public-Private Infrastructure Advisory Facility (PPIAF) in July 1999, with a mandate to assist developing countries in improving the quality of their infrastructure through private involvement. Building on the successful experience of other thematically focused multidonor and bilateral assistance programs, PPIAF complements and reinforces the activities of official donors. In particular, PPIAF aims to improve the quality, coherence, and coordination of technical assistance in support of private participation in infrastructure while mobilizing and leveraging donor resources.

At PPIAF's annual meeting in May 2003 its donors discussed and agreed to an Indicative Work Program for the coming year. This program is not a "master plan" for the coming year's activities, since PPIAF is primarily a demand-driven funding facility that receives and reviews applications from a wide range of sources. Rather, the Indicative Work Program is just what its name suggests—a best estimate of the balance among different types of PPIAF-funded activities. Because PPIAF pursues wide dissemination of emerging lessons and frontier issues, including sectoral and customized regional approaches, the program also includes possible themes for outputs relating to emerging best practices. These factors have brought about a focus on a number of broad topic areas that begin to address the challenges highlighted above. Each of the areas is briefly discussed below.

Supporting Postconflict Rehabilitation

Governments emerging from war and civil conflict face the paradox of having the greatest need for service provision at the very time that investor confidence is at its lowest. Too often this leads to short-term and ultimately unsustainable solutions for infrastructure rehabilitation or to the emergence of private service providers charging exorbitant premiums to cover the investment risks. PPIAF has provided support to post-conflict economies—such as Afghanistan, Angola, Kosovo, and Rwanda—so that they can break this pattern and attract private operators and investors under arrangements offering long-term solutions for service provision. PPIAF will endeavor to refine the strategies that help governments perceive private firms not merely as contracted builders and suppliers but as partners in financing, rehabilitating, operating, and managing infrastructure.

Promoting the Role of the Private Sector in Small-Scale and Community Infrastructure

With major international operators reluctant to invest in poor countries and public utilities unable to expand coverage to periurban and rural communities, governments and donors are beginning to recognize the importance of small-scale service providers. PPIAF has supported a number of activities that analyze the performance of such providers throughout the developing world. These projects seek creative ways to assist small-scale operators in expanding their services where large-scale solutions are not feasible.

PPIAF's fiscal 2004 Indicative Work Program includes a proposal to build on this platform of knowledge and to contribute to the design of innovative regulatory, financial, and contractual arrangements promoting small-scale solutions. Through a comprehensive mapping of small-scale service providers, the proposed activity will help increase understanding of the prevalence and importance of these service providers and their main operating characteristics and constraints.

Supporting Regional Development

From the Mekong Delta to the Andean states, and from the subregions of Africa to the Pacific and Caribbean Basins, integration plays a central part in shaping the economic development prospects of the world's poorest countries. To benefit from scale economies in service provision and the free movement of goods and people, countries must address many constraints to integration—financing constraints, legal and regulatory constraints, policy and institutional constraints. PPIAF will continue to support regional development through the private provision of infrastructure by exploring and disseminating emerging best practices in integration and by providing direct assistance to regional initiatives.

Improving Regulatory Capacity

Regulatory agencies' lack of capacity to protect the interests of consumers and investors and the dampening effect of regulatory risk on project finance remain key obstacles to sustainable private participation in infrastructure. Since its inception, PPIAF has responded to the demand for building regulatory capacity at both national and regional levels. The fiscal 2004 Indicative Work Program calls for continued support to regulatory training initiatives, to continue to build on PPIAF's experience in South Asia, Sub-Saharan Africa, Latin America, and, most recently, East Asia. These initiatives foster the sharing of experience among established and newly created utility regulators and build skills in economic regulation. PPIAF will continue to tailor its capacity building assistance to the specific needs of countries and regions and to build on lessons from its experiences as well as those of other donor agencies in providing training, developing materials, disseminating best practices, and pursuing other initiatives to build regulatory capacity.

Promoting Environmentally Sustainable Development

Beyond fiscal and economic benefits, private participation in infrastructure—properly designed and regulated—can lead to environmental gains. Private firms, more likely to use resources efficiently and to be subjected to effective, arm's-length regulation, tend to produce lower emissions and pollution levels than public operators. And given the proper incentives, private firms also bring in newer—and thus cleaner—technologies.

Reaping the potential environmental benefits of private participation in infrastructure is increasingly seen as a critical aspect of sustainable development. But private participation in infrastructure merely offers the opportunity to make strategic decisions with medium- and long-term environmental benefits. What does the evidence say about these potential environmental benefits, and what conditions must be in place to capture them? More broadly, how should environmental considerations be integrated into the privatization of infrastructure—both at the policy, regulatory, and institutional level and in the transactions themselves? PPIAF's Indicative Work Program will provide resources for investigating these issues in the months to come.





Section2



Operations

This section summarizes PPIAF's fiscal 2003 portfolio and highlights some completed activities, describing their impact, along with selected activities still under way.

THE FISCAL 2003 PORTFOLIO: AN OVERVIEW

PPIAF funded a range of activities in all eligible sectors and across all developing regions in its fourth year of operation. In the fiscal year ending June 30, 2003, the PPIAF portfolio included activities in more than 34 countries, with 12 regional activities among them. In fiscal 2003 alone PPIAF approved funding for 60 activities for a total value of \$14.3 million. Additional cofinancing of about \$4.6 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 activities and funding in fiscal 2003, followed by Eastern Europe and Central Asia and South 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:

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

The Program Council, in its review of PPIAF's operations, agreed that the portfolio for fiscal 2003 reflected a reasonable balance across the eligible sectors. Activities covering more than one sector accounted for the largest number and value of 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, policies for improving the investment environment for infrastructure across sectors, and strategies for increasing competition in network services such as power, railways, and telecommunications.

Table 2.1 PPIAF Activities by Region, Fiscal 2003

Region	Number of activities	Funding (US\$ thousands)	Share of activities (%)	Share of funding (%)
Sub-Saharan Africa	19	4,328	32	30
Eastern Europe and Central Asia	8	2,756	13	19
South Asia	8	2,397	13	17
Latin America and the Caribbean	7	1,596	12	11
East Asia and Pacific	8	1,588	13	11
Middle East and North Africa	3	274	5	2
Global	7	1,366	12	10
Total	60	14,305	100	100

Table 2.2 PPIAF Activities by Sector, Fiscal 2003

Sector	Number of activities	Funding (US\$ thousands)	Share of activities (%)	Share of funding (%)
Multisector	16	3,690	27	26
Transport	14	3,626	24	25
Roads and urban transport	5	1,402	8	9
Multimodal transport	4	960	7	7
Railways	3	814	5	6
Ports	1	260	2	2
Airports	1	190	2	1
Water and sewerage ^a	16	3,452	26	24
Telecommunications	8	2,745	13	19
Energy	6	792	10	6
Natural gas	3	546	5	4
Electricity	3	246	5	2
Total	60	14,305	100	100

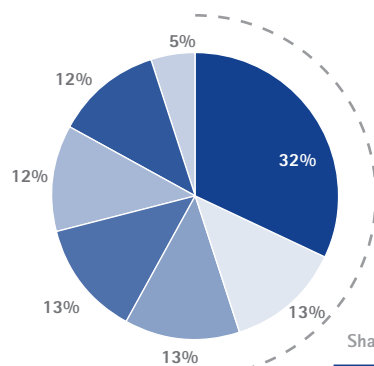
a. Including solid waste.

Table 2.3 PPIAF Activities by Deliverable, Fiscal 2003

PPIAF deliverable	Number of activities	Funding (US\$ thousands)	Share of activities (%)	Share of funding (%)
Policy, regulatory, and institutional reforms	16	4,571	27	32
Infrastructure development strategies	16	3,921	27	27
Capacity building	12	2,279	19	16
Pioneering transactions	4	1,421	7	10
Consensus building	7	1,086	12	8
Emerging best practices	5	1,027	8	7
Total	60	14,305	100	100

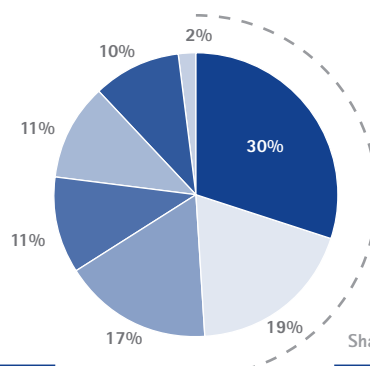
Distribution of the PPIAF Portfolio, Fiscal 2003

Figure 2.1



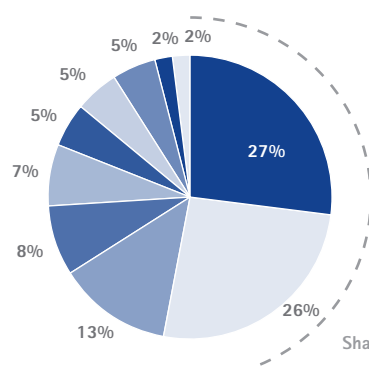
Share of activities by region

Sub-Saharan Africa 32%
 East Asia and Pacific 13%
 Eastern Europe and Central Asia 13%
 South Asia 13%
 Latin America and the Caribbean 12%
 Global 12%
 Middle East and North Africa 5%



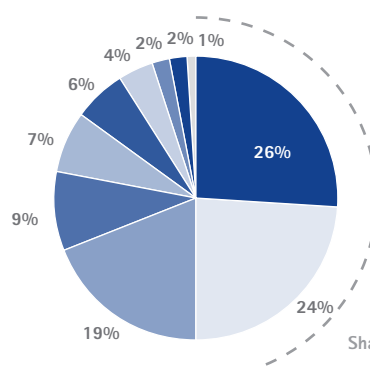
Share of funding by region

Sub-Saharan Africa 30%
 Eastern Europe and Central Asia 19%
 South Asia 17%
 East Asia and Pacific 11%
 Latin America and the Caribbean 11%
 Global 10%
 Middle East and North Africa 2%



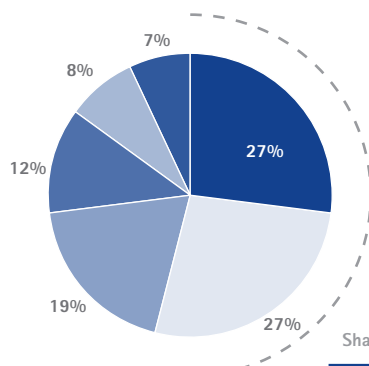
Share of activities by sector

Multisector 27%
 Water and sewerage 26%
 Telecommunications 13%
 Roads and urban transport 8%
 Multimodal transport 7%
 Electricity 5%
 Natural gas 5%
 Railways 5%
 Airports 2%
 Ports 2%



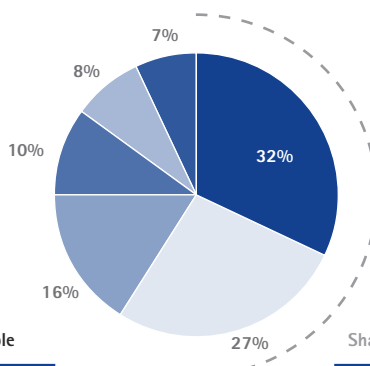
Share of funding by sector

Multisector 26%
 Water and sewerage 24%
 Telecommunications 19%
 Roads and urban transport 9%
 Multimodal transport 7%
 Railways 6%
 Natural gas 4%
 Ports 2%
 Electricity 2%
 Airports 1%



Share of activities by PPIAF deliverable

Policy, regulatory, and institutional reforms 27%
 Infrastructure development strategies 27%
 Capacity building 19%
 Consensus building 12%
 Emerging best practices 8%
 Pioneering transactions 7%



Share of funding by PPIAF deliverable

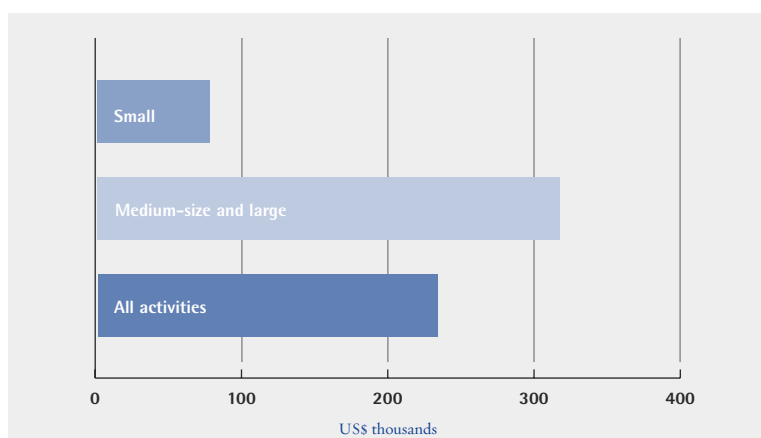
Policy, regulatory, and institutional reforms 32%
 Infrastructure development strategies 27%
 Capacity building 16%
 Pioneering transactions 10%
 Consensus building 8%
 Emerging best practices 7%

Table 2.4 PPIAF Activities by Size, Fiscal 2003

Size	Number of activities	Funding (US\$ thousands)	Share of activities (%)	Share of funding (%)
Small	20	1,403	33	10
Medium-size	14	2,828	23	20
Large	26	10,074	43	70
Total	60	14,305	100	100

Figure 2.2

Average Size of PPIAF Activities, Fiscal 2003



Size of Activities

Small activities (\$75,000 or less), with an average value of \$70,170, accounted for 20 of the 60 approvals in fiscal 2003, for a total value of \$1.4 million (table 2.4; figure 2.2). Medium-size and large activities (more than \$75,000) made up a larger share of the portfolio, both in number (40) and in value (\$12.9 million), with an average size of \$322,523. The average size for all activities was \$238,405.

PORTFOLIO REVIEW OF SELECTED ACTIVITIES

This section describes selected activities undertaken under one or more of PPIAF's six deliverables:

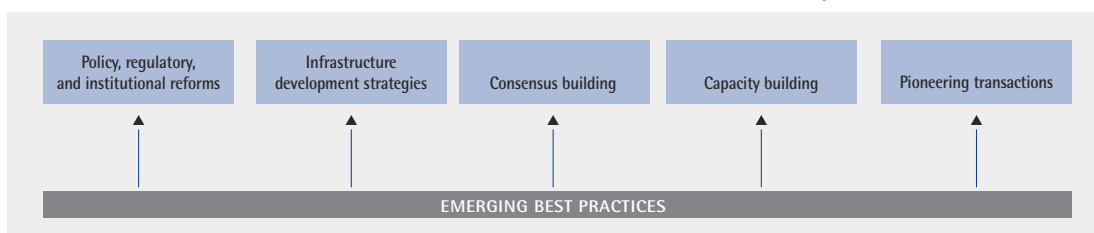
- Policy, regulatory, and institutional reforms.
- Infrastructure development strategies.
- Consensus building.
- Capacity building.
- Support to pioneering projects and transactions.
- Identification, dissemination, and promotion of emerging best practices, a category common to and underlying the first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

The two most common PPIAF activities in fiscal 2003 according to type of deliverable were policy, regulatory, and institutional reforms and infrastructure development strategies (see table 2.3).

Although many PPIAF activities involve more than one type of output or deliverable, those described here are classified by their primary deliverable. For example, the Country Framework Reports are categorized as infrastructure development strategies even though they require workshops with key stakeholders and a roundtable aimed at consensus building. The action plans resulting from the analysis and workshops for these reports directly address the need for policy, regulatory, and institutional reforms and for capacity building.

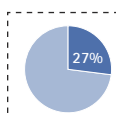
PPIAF Deliverables

Figure 2.3



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 newly appointed regulators. Such a project might have been characterized as a policy, regulatory, and institutional reform activity if the establishment of the overall market structure and regulatory framework were the major thrust of the initiative. (See annex I for a brief description of fiscal 2003 activities classified by deliverable.)

Policy, Regulatory, and Institutional Reforms



Governments face a wide range of challenges as they transform their role in infrastructure from financier, owner, and operator of services to facilitator and regulator of privately provided services. In fiscal 2003 PPIAF continued to respond to a 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. PPIAF approved 16 activities in the area of policy, regulatory, and institutional reforms during the fiscal year (see annex I for a description of these activities).

These activities range from supporting Azerbaijan in implementing a regulatory framework for water, electricity, and natural gas to assisting Uganda in establishing and strengthening a multisectoral transport regulator. One activity aided Sri Lanka in designing legal reforms to improve the prospects for private investment in water and sanitation, and another is helping Afghanistan develop a regulatory framework to support private participation in telecommunications (boxes 2.1 and 2.2). Other examples of PPIAF-funded activities in this area span a range of regions and sectors.

Box 2.1

Sri Lanka: Establishing a Legal Framework for Private Participation in the Water and Sanitation Sector

The delivery of basic services, particularly water supply and sanitation, is unreliable in Sri Lanka. Many users rely on expensive backup supply or have no access to services at all. With low-income groups especially affected, the government sees private participation and better regulation of service providers as critical in combating the deficiencies in service delivery. PPIAF supported legal reforms that make up a crucial building block in the government's efforts to improve performance in water and sanitation.

The existing legal framework was not conducive to attracting private participation in water and sanitation. So the government drafted new legislation to allow two transactions in secondary towns—as well as broader sector reforms—to go forward. But the draft laws did not provide a consistent framework for the sector, nor did they address all the barriers to private participation.

Drawing on international experience, PPIAF aided the government in reviewing and, where necessary, amending the draft laws to resolve inconsistencies in the legal framework. Thanks to PPIAF support, an amended bill was recently submitted to the Cabinet and the Prime Minister's Office and is now being debated in Parliament. Adoption of the revised legal framework is expected to signal a better investment climate and to support reforms in the country's water and sanitation sector.

- In *Cambodia*, which seeks to improve the governance of transactions involving private participation in infrastructure, PPIAF is assisting the government in developing a regulatory, procedural, and institutional framework built on sound principles of transparency, competition, accountability, and public interest. This activity will help improve planning and policymaking, reduce inconsistency across sectors in approaches to contracting private participation in infrastructure, and enhance the credibility and sustainability of private contracts for the provision of public services.
- In *Bangladesh* PPIAF is supporting the new telecommunications regulator, established in 2001, in discharging its responsibilities. By helping to clarify critical regulatory issues of licensing and interconnection and develop the regulatory capacity of the Bangladesh Telecommunications Regulatory Commission, the PPIAF assistance is aimed at improving access to affordable, high-quality information and communications services. Successful performance by the new regulator will have a strong demonstration effect for independent regulators emerging in other sectors in Bangladesh as well as in neighboring countries in South Asia.
- In *Lebanon*, where the government is pursuing the introduction of natural gas to diversify the country's fuel mix and supply sources and lower the cost of power provision, PPIAF is funding the preparation of first-generation gas legislation outlining intergovernmental agreements and the preparation of gas purchase and sales contracts. It is also supporting efforts to build consensus around the draft legislation. The work is expected to form the basis for discussions with other governments on regional purchase and sales contracts based on the future extension of the gas transmission pipeline from Egypt and Jordan.
- In *Bulgaria* PPIAF is assisting the government in finalizing legislation to establish a water sector regulator. This activity builds on earlier work to develop a water strategy (adopted in July 2002) in which PPIAF



Box 2.2

Afghanistan: Reforming the Telecommunications Sector in a Postconflict Environment

Afghanistan's telecommunications networks are dilapidated. The country has only about 2 telephones per 1,000 people—compared with 24 per 1,000 in Pakistan, 35 in Tajikistan, 68 in Uzbekistan, and 83 in Turkmenistan. The Afghan government has chosen telecommunications as the lead sector in its efforts to attract private and foreign investment, recently approving a policy statement that strongly supports opening the sector to private investment and competition. In the postconflict environment of limited local investment and little technical capacity, attracting international private operators to the telecommunications sector is crucial to enable Afghanistan to return to the international community, to promote economic growth, and to create links across a country torn apart by years of ethnic and civil conflict.

Central to attracting successful private investment in telecommunications will be a regulatory framework that fits the unique situation in Afghanistan. PPIAF is supporting the development of such a framework as well as a minimal regulatory regime to help maintain the market structure. The regulatory framework will support the introduction of competition in the mobile sector, which will interconnect with the fixed capacity in place. As the new government opens the telecommunications sector to private involvement in the next few crucial years, PPIAF's assistance should help it sustain the momentum it has generated.

assisted the government in defining the environment for creating a water sector regulator. With the Sofia water concession in place and a 25-year concession for the operation and maintenance of the Varna and Shumen regional water companies expected, the activity is designed to ensure transparency, predictability, and consistency in regulating private participation in the water sector.

- In *Ethiopia* PPIAF is helping the government improve the enabling environment for private participation in municipal waste management and enhance the capacity to regulate the sector. A study will take stock of national and international policy and legal instruments relating to the generation, collection, storage, transport, and disposal of municipal waste. The study will also explore possible areas for private participation and formulate appropriate policy, laws, guidelines, and strategies for waste management.
- In *Mauritius* PPIAF is supporting the establishment and institutional strengthening of the Utility Regulatory Authority. To increase the coverage and efficiency of infrastructure services, the government of Mauritius has decided to reform its public utilities through commercialization and private participation. The PPIAF activity will assist in defining a reform strategy, setting policies and operational procedures, and building capacity.
- In *Brazil* PPIAF helped the government address regulatory issues that had plagued the electricity sector since the power shortages of 2001–02. A PPIAF-funded activity conducted an in-depth assessment of Brazil's electricity regulatory system that led to a new method for asset valuation in agreement with distribution companies, analyzed the impact of the administrative price caps used, and helped the country complete the first sale of purchase and marketing rights for blocks of energy.

Box 2.3

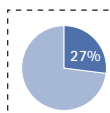
Developing and Applying Models for Output-Based Aid

PPIAF has provided instrumental support for developing and applying the concept of output-based aid. Initiatives based on this concept assist governments in introducing efficient subsidies by tying payment of the subsidies to proof that the operator has delivered the service. Building on early experiences with output-based aid for water supply systems in Cambodia and the Philippines, PPIAF funded several activities that included an output-based aid component in fiscal 2003. Two of these involved telecommunications, in the South Caucasus and in Peru.

In the South Caucasus PPIAF is supporting the development of a regional strategy and action plan for achieving universal access and developing rural telecommunications in Armenia, Azerbaijan, and Georgia. The activity includes designing and implementing a pilot project to expand basic telephone service in rural and underserved urban areas. This work will include evaluating access to and demand for telecommunications service in rural areas and identifying regulatory bottlenecks. It will recommend a detailed strategy—including financing alternatives—for attracting private operators to provide affordable service. The strategy will take into account international best practice, particularly in the “smart subsidy” approach, in which private operators are awarded a subsidy, through competitive bidding based on the least-cost subsidy, to serve otherwise unprofitable rural areas. PPIAF will also support a regional workshop to coordinate the timing of transactions, with the aim of attracting a regional player interested in providing service in more than one country.

In Peru the Fund for Investment in Telecommunications (FITEL) has used an output-based aid scheme since 1996 to encourage private providers to extend access to service to the rural poor. The FITEL program, viewed as a model by many countries, is expected to lead to the connection of about 6,000 rural communities by the end of 2003, mainly through pay phone service. But the Peruvian government would like to create incentives for providing services beyond pay phones. Thus PPIAF is assisting the government in designing a revised program that will use technology-neutral incentives to attract new private operators and investments in underserved rural and periurban areas.

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 16 activities to support the development of such strategies in fiscal 2003, including analytical studies on the options for and potential benefits of private involvement (see annex I for descriptions of all 16 activities).

A flagship PPIAF product in this area is the Country Framework Report for the Private Provision of Infrastructure. Prepared at the invitation of a country, these reports involve extensive consultations with a range of stakeholders. These discussions, 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:

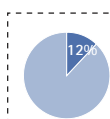
- Describe and assess the status and performance of key infrastructure sectors.
- Describe and assess the policy, regulatory, and institutional environment for involving private owners and operators in these sectors.
- Through this process, assist policymakers in framing future reform and development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

In fiscal 2003 work was under way on Country Framework Reports for Angola, Lesotho, Rwanda, and Senegal. Reports were completed for Cambodia, Honduras, and Mexico, and one is nearing completion for the Dominican Republic. Since fiscal 2000 Country Framework Reports have also been completed for Bangladesh, India, the Philippines, Uganda, and Vietnam.

PPIAF has financed strategic advice on options for private involvement at both the national and the subnational level and across a range of infrastructure sectors. Activities approved in fiscal 2003 range from helping to increase private participation in urban transport services in Hanoi, Vietnam, to assessing consumers' willingness to pay for water and sanitation services in Mauritius. Other examples include these.

- In *Tunisia* PPIAF is assisting the government in developing a coherent and comprehensive strategy for private provision of infrastructure, including an action plan for modernizing the legal, regulatory, and institutional framework for infrastructure. PPIAF funding will also support a workshop in Tunis to bring stakeholders together to determine the next steps in implementing the strategy and identify priority sectors for reform and possible private sector transactions. Adoption and implementation of an action plan with the participation of stakeholders inside and outside the government will be a key indicator of success.
- In *Bolivia* PPIAF is collaborating with the government and the World Bank on a study to develop natural gas markets—both domestic and export. PPIAF-funded efforts will focus on issues relating to infrastructure (transmission and distribution) and on fiscal aspects, building on the first phase of the Bolivia Natural Gas Market Development Study. The present study, now being completed, reviews the fiscal, economic, social, and environmental impacts of the pipeline and analyzes the subsidy system in place today. Preliminary results have been promising, with the proposed liquefied natural gas pipeline attracting strong interest from international investors.
- In *Madagascar*, where the government seeks to improve and extend port services, PPIAF is funding a study to provide the government with a strategy for private participation in the Port of Tolagnaro (formerly Fort Dauphin). This study will assess the expected cost of constructing the new port and suggest mechanisms and instruments for involving private firms in its financing and operation.
- In *Pakistan*, where the government is encouraging the development of private gas pipelines in response to rapidly rising consumption, PPIAF is assisting the Ministry of Petroleum and Natural Resources in designing a medium-term strategy for developing the gas system. The strategy will take into account expected demand, storage options, the location of potential gas reserves, alternatives for network development, the feasibility of gas transmission systems, and other factors. PPIAF is also funding work to develop a framework for private participation (including principles for licensing and competitive bidding) to complement the strategy.

Consensus Building



Sector reforms that expand the role of the private sector and increase the efficiency of infrastructure services can bring broad benefits to society. But without the understanding, cooperation, and commitment of a range of stakeholders—consumers, service providers, government officials, politicians, trade unions, nongovernmental organizations, and domestic and foreign investors—change will not be possible, whatever the long-term benefits. To engage these groups, PPIAF has supported consensus building activities ranging from workshops and seminars to study tours and public awareness campaigns. In fiscal 2003 it financed seven such activities (see annex I for descriptions). These activities include assistance in building broad-based consensus on reform in several regions and countries, with a high-level conference in Kenya a notable example (box 2.4).

- In *Central America* PPIAF financed a workshop in San José, Costa Rica, to present options for modernizing water sectors in the region. With most regional water companies perceived as operating unsatisfactorily, the workshop was aimed at engaging newly elected government officials in a discussion about sustainable water sector policies. The workshop presented a diagnosis of the water sectors in Costa Rica, El Salvador, Guatemala, and Nicaragua along with successful models of private participation in the region and the financial implications of different options for modernization. About 40 officials from Central America and the Caribbean attended the workshop.
- In *Zambia* PPIAF is assisting the government in building consensus and knowledge sharing among stakeholders through a program for introducing private participation in water and sanitation. To ensure “buy-in” of the proposed lease option, particularly by local decisionmakers, labor unions, and consumer groups, the activity will present a short course for stakeholders and conduct a regional study tour to expose stakeholders to successful experiences in bringing private operators into water supply and sanitation.
- In *Guatemala* PPIAF is financing the work of international experts to advise the government on how to increase private participation in transport. Outputs will include a general concession law and related legal framework for granting infrastructure concessions; implementation rules; and model contracts. The activity will produce separate strategies for increasing private participation in the port, airport, and road sectors and provide technical assistance in setting up a maritime and port authority. It will also support several workshops to ensure consultation with the appropriate stakeholders, including Congress, and help build consensus around the infrastructure strategies and action plans.



Box 2.4

Kenya: Convening a High-Level Conference on Private Participation in Infrastructure

We live in a highly dynamic world, and we cannot allow mismanagement to be a way of life. The lack of innovation and serious long-term investment in physical infrastructure during the past decade has cost Kenyans dearly. . . . It is my government's policy to actively seek partnership with the private sector in order to achieve our goals.

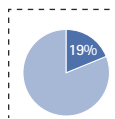
—PRESIDENT MWAI KIBAKI OF KENYA

In Kenya the new government's program for national development puts strong emphasis on restoring investment in the country's infrastructure. With PPIAF funding, the government held a high-level conference in May 2003 designed to build consensus among key players on the policy initiatives and reforms needed to increase private participation in Kenyan infrastructure.

The conference brought together the president of Kenya, his infrastructure ministers and minister of finance, heads of bilateral and multilateral organizations, key local and international private operators and investors, members of civil society, and infrastructure users for a frank discussion of what needed to be done to attract private investment in infrastructure as a way to jumpstart Kenya's economy. For each infrastructure sector participants considered the opportunities, the constraints, and the key actions needed to promote private participation. In most sectors they identified an inadequate legal and regulatory framework as a major constraint and recommended accelerating reform as a key priority.

The conference produced a blueprint for infrastructure reforms in Kenya, clearly outlining the priority actions the government needs to take to foster private participation in infrastructure. For more details on the conference as well as background papers and the final report, go to <http://www.buildkenyatogether.com>.

Capacity Building



Countries that have relied on the traditional model of public utilities and transport authorities are often ill equipped to design and put in place arrangements for private provision of infrastructure services. Moreover, most developing countries are new to the concept of independent regulatory bodies to set and review tariffs and monitor the quality of service. To help governments develop the capacity to undertake reforms for introducing private participation in infrastructure and to regulate private service providers, PPIAF assesses needs and provides detailed recommendations, sponsors workshops and seminars on sector-specific themes, and underwrites initial investments in regional capacity building programs.

PPIAF approved 12 activities in fiscal 2003 whose primary focus was capacity building, ranging from assisting the government of Mali in improving its regulatory frameworks for water and electricity to identifying prevailing perceptions on management models for the water and sanitation sector in Albania. PPIAF support to regulatory networks remains the main focus of its capacity building activities, as demonstrated by the kinds of activities approved in fiscal 2003 (boxes 2.5–2.7).



Box 2.5

East Asia and Pacific: Establishing a Regional Network
for Utility Regulators

A regional network for utility regulators would constitute an excellent vehicle to strengthen the capacity of public authorities to effectively regulate the provision of infrastructure services where markets are not yet liberalized.

—SUCHART JAOVISIDA, MINISTER OF FINANCE, THAILAND

Estimates of the infrastructure investment needs in East Asia and Pacific exceed \$250 billion a year. But in 2001 investments in infrastructure projects with private participation amounted to only about \$17 billion. That reflects a sharp drop from the \$41 billion in 1997, just before the Asian crisis. Moreover, with around 500 million people expected to move to the region's cities in the next 20 years and with local governments gaining more regulatory responsibilities, public authorities face unprecedented pressure to deliver on infrastructure. Fair, effective, and transparent regulatory regimes will be crucial in meeting that challenge.

In response to the increased need for proper infrastructure regulation in the post-Asian crisis world, PPIAF—along with the World Bank and the fourth APEC (Asia-Pacific Economic Cooperation) Privatization Forum—conducted a workshop in Bangkok on June 16–18, 2003, for infrastructure regulators from East Asia and Pacific. The main goal of the workshop was to test participants' interest in launching a network of infrastructure regulators in the region. Similar initiatives launched with PPIAF support in Africa (the African Forum for Utility Regulation) and South Asia (the South Asia Forum for Infrastructure Regulation) have shown that such networks can be useful in several ways:

- Promoting the exchange of experience and information among regulators and fostering best practices in regulation across sectors.
- Enhancing the policy dialogue on regulatory matters between donors and client countries and within client countries.
- Raising the profile of the regulatory function and thereby helping to protect regulators from undue political or industry pressure.

More than 100 officials attended the workshop, representing regulatory authorities in Cambodia, China, Fiji, Indonesia, Japan, the Republic of Korea, Malaysia, Mongolia, the Philippines, Singapore, Thailand, and Vietnam. The officials came from organizations as diverse as the Samoan Water Authority and the National Telecommunications Commission of the Philippines. Representatives from the Asian Development Bank, the United Nations Economic and Social Commission for Asia and the Pacific, and the World Bank Group also participated.

Through a series of presentations, breakout discussions, and informal exchanges, workshop participants expressed keen interest in a network of infrastructure regulators in East Asia and Pacific. Discussions are under way to decide on the next steps for establishing the network.

PPIAF-funded activities for building capacity within governments can be regional and even global.

- In *East Africa* PPIAF is financing training for the technical staff of targeted regulatory agencies to provide them with the techniques needed for regulation in the electricity sector. The training is primarily intended to be practical, with case studies of countries that recently dealt with similar challenges and a particular focus on challenges facing regulatory bodies in developing countries.
- Expanding its mandate to build the capacity of utility regulators, PPIAF is funding the preparation of a comprehensive body of knowledge for regulatory professionals. This activity will produce an annotated reading list linking discussions of topics to a range of applied and conceptual references (book chapters, academic articles, regulatory consultation papers, rulings). The bibliography will draw on training materials developed by recent regulatory capacity building activities funded by PPIAF and will include a glossary of terms with standard definitions. The glossary will be translated into French and Spanish to facilitate consultation and dissemination.

Box 2.6

Continuing a History of Support to Regulatory Networks

PPIAF's support in creating and strengthening local and regional regulatory bodies that focus on infrastructure continues to be a cornerstone of its work. From activities launched in 1999, regulatory networks have emerged in Africa and South Asia that now serve as models that other regions can adapt to their own needs.

In Africa PPIAF continues its support to the African Forum for Utility Regulation (AFUR), established since 2000 as an informal network of regulatory bodies. PPIAF helped AFUR formalize its constitution and supported the association's formal launch in November 2002 in Pretoria, South Africa. At this gathering 22 regulatory bodies signed the constitution, formalizing cooperative arrangements for effective regulation of utilities in energy, telecommunications, and water and sanitation. PPIAF also helped the association develop its first business plan, which has now resulted in a fully functional secretariat with elected members in South Africa. By the end of 2003 AFUR expects to have launched a Web site with improved information sharing, identified its members' training needs and matched them with appropriate programs, and built a body of knowledge on key regulatory policies and legislation in each member country.

In South Asia PPIAF continues its efforts to strengthen the capacity of the South Asia Forum for Infrastructure Regulation (SAFIR). PPIAF aims to ensure that regional capacity building activities are being deepened even as more basic SAFIR programs continue to be delivered. SAFIR is now developing its first code of ethics for infrastructure regulators in South Asia while also preparing the launch of a biannual publication reviewing regulatory decisions in the region.

PPIAF is also expanding its support for networks into new regions requesting assistance in developing regulatory capacity. In East Asia and Pacific it is promoting the establishment of a regional network for utility regulators (see box 2.5). And in Latin America it formed a three-way partnership with the Association of Water and Sanitation Regulatory Agencies of the Americas (ADERASA) and the World Bank to build on the successes of earlier networks of regulatory bodies. Created in October 2001, ADERASA is a regulatory association dedicated to addressing water and sanitation issues for its member organizations across the region—in Argentina, Bolivia, Chile, Colombia, Costa Rica, Nicaragua, Panama, and Peru. Brazil and the Dominican Republic, now observers, plan to join the association once it is fully operational, and Honduras, Paraguay, and República Bolivariana de Venezuela may also do so.

The financing provided by PPIAF will help ADERASA enhance regional regulatory work through several activities:

- Creating regional working groups to develop sets of regulatory tools (initially in benchmarking, regulatory accounting, and tariffs and subsidies).
- Establishing "virtual" roundtables to foster interactive exchange among members.
- Developing a proprietary Web site to facilitate a more permanent exchange of information among members.



Box 2.7

Middle East and North Africa: Enhancing Private Participation in the Water and Energy Sectors

The Middle East and North Africa region is home to 5 percent of the world's population yet has only 1 percent of the planet's accessible fresh water. The per capita amount of available water resources is only a sixth of the world average. Thus some 45 million people in the region have no access to safe drinking water, and more than 80 million lack access to adequate sanitation. Compounding the problem, the population is growing rapidly, the cost of supplying clean water has increased sharply in many places, and private investment in water infrastructure is on the decline.

The electricity supply also fails to reach everyone: even though an average of 90 percent of national populations have access to electricity, 28 million people still do not. Moreover, subsidies are depleting national budgets and tend to favor those already connected, often those with the highest incomes.

Recognizing that substantial investment can materialize only if adequate policies are put in place, PPIAF sponsored a two-day workshop in May 2003 in Beit-Meri, Lebanon, to look at the critical financing and policy needs in the region's power and water sectors and promote private participation through stronger regulatory frameworks. The workshop was developed in association with the Joint European Union–World Bank Program on Private Participation in Mediterranean Infrastructure, the multidonor Energy Sector Management Assistance Programme, and the World Bank's Water and Energy Department.

Gathering 150 participants from governments, the private sector, and the donor community, the event included detailed analysis of case studies and workshop-style debates. Participants discussed several critical needs for improving the water and power infrastructure, such as regulation and private participation. And they called for more streamlined and transparent procedures for transactions, stronger regulatory arrangements, and greater risk sharing by donors.

Support to Pioneering Projects and Transactions

During the past 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. Nonetheless, support to pioneering projects and transactions remains a critical deliverable under PPIAF's mandate and, together with the other deliverables, is expected to have a positive influence on the enabling environment for future transactions.

In fiscal 2003 PPIAF funded several activities designed to facilitate transactions, ranging from a rural telecommunications strategy for the South Caucasus (see box 2.3) to a regulatory framework for private participation in Swaziland's railway sector.

- In *Georgia* PPIAF is funding a review of the water and wastewater sectors to identify appropriate options for private participation. This activity, expected to result in a pilot pioneering transaction, is designed to ensure high-quality water and wastewater services, especially for poor people, by improving the financial, managerial, and technical capabilities of service providers. With the aid of this technical assistance, the government is preparing to establish a regulatory regime that protects consumers and responds to consumer preferences by allowing differentiated services. The PPIAF-funded study will outline fair and transparent decisionmaking processes that allow stakeholder participation and will build a consensus on the acceptable level of private participation.
- In *Swaziland* PPIAF is funding a team of experts to help the government design a legal, regulatory, and institutional framework for a privatized railway system. The study will detail the implementing rules of the regulatory framework and draft new legislation on the regulatory arrangements favored by the government for implementing the proposed privatization of Swaziland Railways.

In *Serbia and Montenegro* PPIAF is supporting efforts by the city of Belgrade to introduce private participation in the solid waste sector through a competitive tender process. To succeed, this operation will require not only an appropriate sectoral strategy but also a greater capacity to handle the responsibilities associated with regulating contracts with private providers. The PPIAF-funded activity will develop a waste management strategy and build organizational and institutional capacity to engage the private sector in solid waste management. The regulatory function to be established under this activity will be the first municipal-level arrangement of its kind in Serbia and Montenegro.

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,” case studies, model documents, empirical analysis, and regional and international conferences. In fiscal 2003 it supported five activities focusing on emerging best practices (see annex I for descriptions).

Toolkits are a key product for PPIAF. These draw together best practice on issues related to private involvement, focusing on a single sector or on a theme that cuts across several sectors. Designed to be user-friendly, the toolkits offer sufficient detail and practical guidance for a diverse range of situations, objectives, constraints, and capacity levels. Completed toolkits—on reforming ports, using advisers for private participation in infrastructure, and introducing public-private partnerships in roads and highways—are accessible through PPIAF’s Web site (<http://www.ppiaf.org>). In fiscal 2003 work was completed on another toolkit, one that examines policy options in labor reform for governments that are privatizing infrastructure (box 2.8). And work is under way on yet another toolkit, on reforming the water and sanitation sector (box 2.9).

Box 2.8

Toolkit on Labor Issues in Infrastructure Reform

Some forms of private participation in infrastructure may lead to changes in working conditions as governments adjust the workforce to prepare for reform or as new operators introduce efficiency improvements and expose enterprises to greater management discipline, new technologies, and increasing competition. Dealing with labor adjustments can be a difficult and sensitive task with many challenges: labor opposition, lack of social safety nets, and lack of functioning labor markets among them. But experience shows that increased private participation can proceed smoothly if early efforts are made to develop labor strategies and approaches that balance the interests of consumers in receiving better and more efficient services with the desire of workers for fair and equitable treatment.

In fiscal 2003 PPIAF funded the development of a labor reform toolkit that draws from global experience to assist practitioners in designing, implementing, and monitoring labor change programs. The primary audience is government officials responsible for economic reforms, though the toolkit may also serve as a reference for other stakeholders, including labor, the private sector, and consultants. The toolkit includes a Web-based CD-ROM with searchable documents, spreadsheets, sample terms of reference, and case studies. The toolkit consists of seven modules. The first provides a summary for high-level officials and a decisionmaking framework and road map to guide policymakers through the labor restructuring process. The other six modules provide detailed discussions on:

- Assessing the impacts of private participation in infrastructure on labor.
- Assessing the size and scope of the labor restructuring that may occur.
- Designing labor reform strategies and restructuring options, including timing and sequencing.
- Developing key elements of a labor program (severance payments, pension payments, redeployment programs, employee shares).
- Managing the restructuring process.
- Monitoring and evaluating labor programs.

Box 2.9

Toolkit for Water and Sanitation Reform

In fiscal 2003 PPIAF began work on a multimedia toolkit to assist policymakers and advisers in introducing private participation in water and sanitation services. The toolkit will:

- Describe and reflect on recent experiences and challenges in private participation in water and sanitation.
- Provide practical documentation and case studies.
- Incorporate new policy material.
- Provide an interactive financial model.

The toolkit will cover a broad range of issues—including policy formation, market structure, the development of legal and regulatory frameworks, and the design and implementation of transactions. It will also emphasize such themes as:

- Pro-poor contracts and pricing, including the regulation of entry by small-scale providers and the use of output-based aid.
- The design of arrangements for water supply and sanitation in small towns.
- Challenges specific to private participation in sanitation.

Through the toolkit, PPIAF aims to help developing country governments that are considering introducing or extending private participation in water and sanitation to do so in a way that maximizes the benefits for consumers. It also seeks to help governments improve the quality of their policy toward private participation in water and sanitation.

Other recent activities designed to identify and disseminate best practices have focused on regional integration. PPIAF recognizes that efficient transport links are particularly important for landlocked developing countries as they struggle to gain timely and affordable access to export markets and to reduce the cost and improve the availability of imported goods. In fiscal 2003 PPIAF funded a survey of strategies for enabling cross-border private investment in infrastructure for such countries. The analysis focused on transport infrastructure, including international highway and rail connections, border intermodal freight stations and other inland terminals, links from landlocked countries to private ports, and even waterway maintenance contracts. Such links play a crucial part in the economic and political integration of emerging economies and subregions seeking long-term growth and stability. The survey has been published as a PPIAF paper and served as key background material for the United Nations conference on landlocked developing countries held in Almaty, Kazakhstan, in August 2003.

In conjunction with the Asian Development Bank, PPIAF also is funding a review of global best practices for public-private partnerships in railways, with the aim of identifying those most appropriate for Asia. This activity will provide case studies of successful transactions, explore options offered to selected Asian cities, and prepare typical outlines and examples of transactions with private investors and operators.

Another activity focusing on Asia culminated in a large conference exploring ways to increase the benefits of private participation in infrastructure for poor people (box 2.10).



Box 2.10

East and South Asia: Infrastructure for Development in Asia—
Private Solutions and the Poor

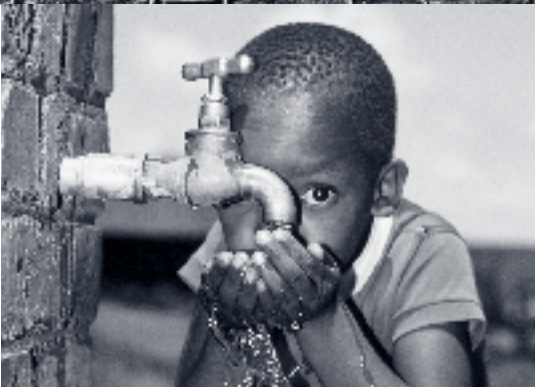
To better understand how to develop adequate pro-poor policies in Asia, PPIAF and the Asian Development Bank jointly commissioned a series of papers and hosted the conference “Infrastructure for Development in Asia—Private Solutions and the Poor” in Manila in October 2002. The conference built on previous ones supported by PPIAF and other organizations, notably the global conference on pro-poor private participation in infrastructure held in London in May 2000.

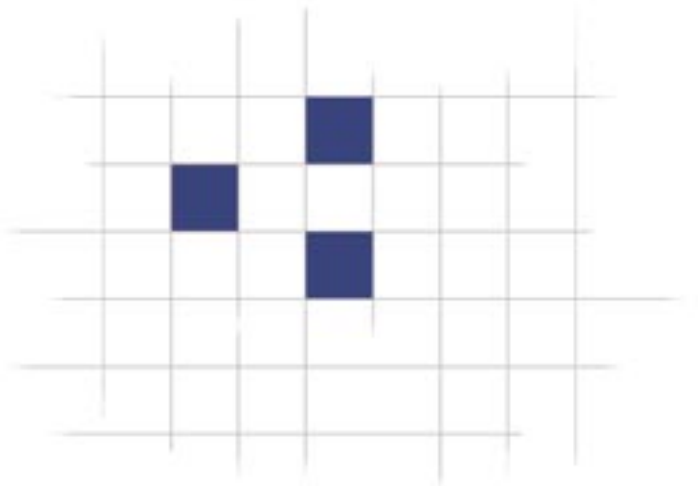
The conference drew more than 120 participants from 20 countries, including representatives of governments, regulatory authorities, the private sector, civil society, and donors. Through conceptual papers and detailed case studies from Bangladesh, China, the Philippines, Sri Lanka, Thailand, and other countries, the conference addressed several cross-sectoral questions:

- What are the key challenges in using the private sector to deliver infrastructure services?
- What are the key policy levers for expanding and improving private sector options for reaching low-income households?
- What recent innovations in market structure are conducive to pro-poor private participation in infrastructure?
- How can the regulation of infrastructure be made pro-poor?
- How should subsidies be designed and delivered so that they reach the intended beneficiaries?
- What are the key issues in implementing pro-poor reform?

The size and diversity of Asia make it difficult to draw general conclusions, and the conference underscored the need for more detailed case studies from the region. Participants reaffirmed the importance of the private sector in providing infrastructure services, but emphasized the need for appropriate, robust regulation, innovative mechanisms for making subsidies pro-poor, and practical approaches for enhancing the benefits of private participation in infrastructure for low-income households. For more information on the conference papers and agenda, go to <http://www.ppiaf.org>.







Section 3



Governance Structure

PPIAF is a multidonor technical assistance facility aimed at helping developing country governments improve the quality of their infrastructure through private sector involvement. 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, made up of leading international experts in different aspects of private provision of infrastructure, supports the Program Council. A Program Management Unit manages PPIAF in accordance with a general strategy laid out in the program charter 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

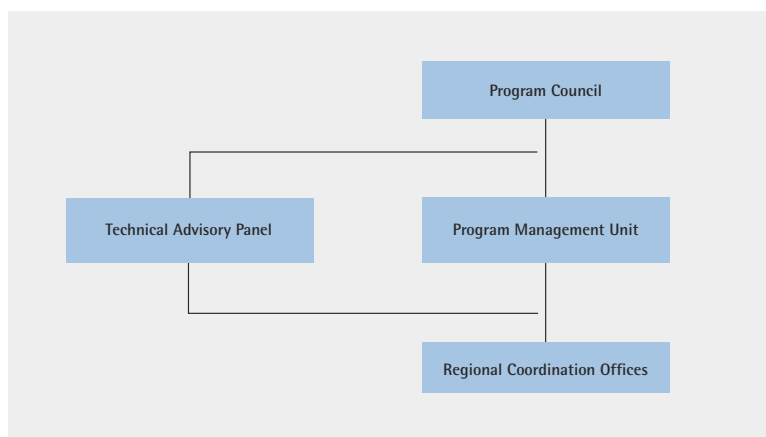


Figure 3.1

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, 2003, there were 12 members (table 3.1). Members may also contribute to Non-Core Funds, whose use is restricted to particular themes, regions, or activities.

At the fourth annual meeting of the Program Council the U.S. government, through the U.S. Agency for International Development, expressed its intention to join PPIAF shortly. The government of Italy later indicated a similar intention.



Table 3.1 Members of the PPIAF Program Council as of June 30, 2003

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 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 May 20–21, 2003, the Program Council held its fourth annual meeting since PPIAF was launched in July 1999. Agence Française de Développement hosted the meeting in Paris on behalf of the government of France. At the meeting the staff of the Program Management Unit presented an overview of program operations, representatives of the Cambodian and Zambian governments reported on the impact of PPIAF activities in their country, and the Technical Advisory Panel presented its ex post evaluation of selected activities and assessment of the overall performance of the PPIAF program.

Preceding the meeting was a workshop to explore current themes relating to the private provision of infrastructure. The workshop focused on the political economy of private participation in infrastructure, the management of stakeholder expectations, and the role of regional regulatory bodies in promoting and sustaining private provision of infrastructure. Nemat Shafik, vice president for infrastructure at the World Bank and chairperson of PPIAF's Program Council, gave opening remarks, introduced the speakers, and chaired both sessions.

Workshop participants saw sustainable private participation in infrastructure as contingent on a sharper focus on the fundamental underpinnings of the investment climate and greater flexibility by policymakers and advisers in considering new approaches to risk sharing. Representatives from the African Forum for Utility Regulation and the South Asia Forum for Infrastructure Regulation provided their points of view on the role of regional regulatory bodies in promoting and sustaining private participation in infrastructure.

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 2003, holding its fifth meeting in Washington, D.C., on November 27, 2002, and its sixth meeting in Paris on May 20, 2003. Panel members also participated in the Program Council's fourth annual meeting, also held in Paris in May 2003.

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, level of funding, and ease of replication (box 3.1):

- Building Consensus for Energy Reform (Algeria).
- Building Consensus for Water Reform in Tucumán (Argentina).
- Promoting Private Investment in Infrastructure (China).
- Improving the Regulation of the Water and Sanitation Sector (Colombia).
- Options for Privatizing Water Supply and Sewerage Operations in Nairobi (Kenya).
- Tapping Financial Remittances for Infrastructure Development (Mexico).
- Private Sector Participation in the Energy Sector (Mozambique).
- Privatizing and Restructuring the Railway Sector (Uganda).
- Options for Private Sector Participation in the Provision of Water and Sewerage Services in Lusaka (Zambia).
- Activities related to establishing multisectoral regulatory agencies in Armenia, Latvia, Slovakia, and Sri Lanka.

Box 3.1

Assessing the Past—and Looking Ahead

At the Program Council's fourth annual meeting the Technical Advisory Panel presented the results of its third ex post evaluation, covering 13 activities, and provided inputs to the fiscal 2004 Indicative Work Program presented by the Program Management Unit.

The panel's evaluation highlighted PPIAF's key strengths and noted its continuing ability to address realities on the ground, such as the need to recognize developing countries' constraints in implementing activities and follow-on actions. The panel also recognized PPIAF's ability to leverage resources in its interventions, broaden participation in consultative processes (especially to include more private sector stakeholders), and ensure open, transparent forums.

The panel noted that while no new areas of concern surfaced in its evaluation, the long-term impact of PPIAF-funded activities remains difficult to assess. Thus it recommended focusing on the timeline between recommending sectoral, legal, regulatory, and institutional reforms and achieving actual improvements in service delivery. The panel also recommended that the Program Council and Program Management Unit directly address constraints to decisionmaking and implementation of reforms by expanding on PPIAF's experience with effective consensus building and by helping governments and regional bodies strengthen regulatory capacity. And given today's investment environment in the developing world, it encouraged PPIAF to explore step-by-step approaches to implementing large-scale and sensitive sectoral reforms and transactions.

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 2003 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 the 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 PPIAF's 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 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). These procedures are designed to promote timely and efficient review of all proposals submitted.



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

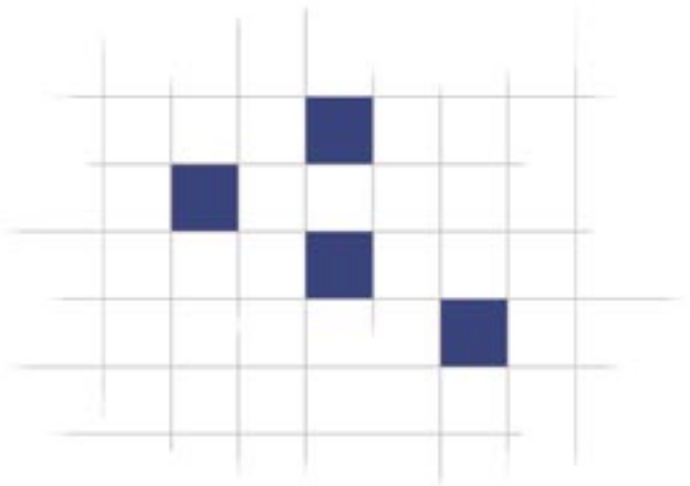
Applications for PPIAF funding should contain indicators against which the quality of the proposed activity can be assessed. Larger activities should usually include appropriate consultative and quality review mechanisms.

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 funds that are not subject to donor restrictions, such as those relating to 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 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, regions, or activities. 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.

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 PPIAF's inception to June 30, 2003, 12 donors contributed a total of \$73.8 million to PPIAF, including more than \$1.3 million of net investment income (table 4.1). These 12 donors are the Asian Development Bank, 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 U.S. government (through the U.S. Agency for International Development) and the Italian government have signaled their intention to come on board as new donors in fiscal 2004.

Table 4.1 Member Contributions to PPIAF: Confirmed Receipts as of June 30, 2003

(US\$ thousands)

SUMMARY

Type of funding	Receipts
Core	49,305
Non-Core	23,159
Net investment income ^a	1,335
Total funding	73,799

CORE FUNDING

Member	Duration ^b	Receipts
Asian Development Bank	January 2001–December 2003	750 ^c
Canada	July 1999–June 2003	1,042
France	July 2000–June 2003	766
Germany	January 2001–December 2003	753
Japan	July 1999–June 2003	7,435 ^d
Netherlands	July 2001–June 2003	1,000
Norway	July 1999–June 2003	1,250
Sweden	July 2000–June 2003	824
Switzerland	July 1999–June 2005	3,173
UNDP ^e	July 1999–November 2002	n.a.
United Kingdom	July 1999–June 2003	21,382
World Bank	July 1999–June 2003	10,930
Total Core funding		49,305

NON-CORE FUNDING

Member	Duration ^b	Receipts
Japan	March 2001–June 2003	2,608 ^f
Sweden	July 2002–June 2005	3,379 ^g
Switzerland	July 1999–June 2005	3,082 ^h
United Kingdom	July 1999–June 2003	14,090 ⁱ
Total Non-Core funding		23,159

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 received amount is allocated.

c. Excludes the Asian Development Bank's \$250,000 contributions in kind.

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

e. UNDP's in-kind contribution—directed to the 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.

h. Targeted to countries in Eastern Europe and Central Asia.

i. Targeted to selected low-income countries 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 2003 (July 1, 2002, to June 30, 2003) total expenditures amounted to \$14.5 million (table 4.2). Of this amount, \$12.1 million went to program activities, reflecting an increase of 30 percent from the \$9.3 million in fiscal 2002 (table 4.3). Meanwhile, expenditures of the Program Management Unit remained steady despite an increase in program activities (table 4.4). Expenditures of the Regional Coordination Offices fell slightly, from \$1.1 million to \$0.95 million, as a result of a realignment of staff in the Pretoria office.

Table 4.2 PPIAF Expenditures for Program Activities and Administration, Fiscal 2003

(US\$ thousands)

Expense category	Expenditures
Program activities	12,058
Program Management Unit	1,457
Regional Coordination Offices	950
Total	14,465

Table 4.3 PPIAF Program Activity Expenditures, Fiscal 2003

(US\$ thousands)

Expense category	Expenditures
Consultant fees and contractual services	9,969
Travel	805
Staff costs	1,068
Other expenses	216
Total operational and overhead expenses	12,058

Table 4.4 PPIAF Program Management Unit and Regional Coordination Office Expenditures, Fiscal 2003

(US\$ thousands)

Expense category	Expenditures
Program Management Unit core administration ^a	947
Technical assessments of activities ^b	27
Consultant fees and contractual services ^c	195
Travel ^d	169
Other expenses ^e	119
Regional Coordination Offices ^f	950
Total operational and overhead expenses	2,407

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) and honoraria for Technical Advisory Panel members and 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 contributed to 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.

Sources and Uses of Funds

From PPIAF's receipts of \$73.8 million, \$57.4 million has been allocated to activities, and about \$8.9 million to Program Management Unit and Regional Coordination Office funds, since fiscal 2000. The remaining available cash of \$75 million includes \$2.4 million in pledges received in advance—fiscal 2004 and 2005 Core pledges from Sweden and fiscal 2004 Non-Core pledges from Switzerland—and \$0.2 million in unused Japanese funds for the Singapore Regional Coordination Office (table 4.5). Of the total available funds of \$4.9 million, \$3.3 million is allocated for Core activities, and \$1.6 million for Non-Core activities. This available cash will allow PPIAF to commit funds for activities in the first quarter of fiscal 2004.

Table 4.5 PPIAF Cash Position as of June 30, 2003

(US\$ thousands)

Receipts	73,799
Less approved activities	57,375 ^a
Less Program Management Unit and Regional Coordination Office funds	8,915
Subtotal: available cash	7,509
Less funds received in advance	2,594
Total available funds	4,915

a. Excludes \$4.5 million of U.K. Non-Core Funds for approved activities. In accordance with PPIAF's agreement with the United Kingdom, that country will transfer these Non-Core Funds to PPIAF upon actual disbursements to the approved activities.

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.





Annex1



Approved PPIAF Activities for Fiscal 2003

Activity	Description of activity	Target completion date	Funding approved (US\$)	Deliverable	Type of funding
SUB-SAHARAN AFRICA					
Democratic Republic of Congo: Private Participation in Water Utility Management	Organizing a national seminar on public-private partnerships in the water sector and presenting a review of existing regional schemes to build consensus on long-term solutions for the Democratic Republic of Congo.	2/27/04	65,103	Consensus building	Core
Ethiopia: Private Sector Participation in Urban Transport through Private Operators in Addis Ababa	Reviewing the structure and organization of urban bus passenger transport in Addis Ababa, analyzing current public transport regulations, and developing a clear policy framework and action plan for introducing private participation and improving the institutional, organizational, and operational environment for bus transport in the city.	8/27/04	248,150	Infrastructure development strategies	Non-Core (Sweden)
Ethiopia: Regulatory and Institutional Reform in the Solid Waste Sector	Supporting the government in formulating a clear strategy for private involvement in municipal solid waste management (generation, collection, storage, transport, and disposal) by financing a comprehensive diagnosis of the sector and presenting a workshop on the issues for discussion among stakeholders and on the international best practices appropriate for Ethiopia.	3/31/04	391,500	Policy, regulatory, and institutional reforms	Non-Core (Sweden)
Ghana: Private Participation in the Road Sector	Assisting the government in developing a regulatory and concession framework that will provide guidelines, processes, and procedures for private participation in developing and managing road infrastructure and related facilities.	8/30/04	286,670	Infrastructure development strategies	Non-Core (Sweden)
Ghana: Private Sector Participation in Urban Transport through Private Operators in Ghana	Assisting the government in examining the structure and organization of urban bus passenger transport in Accra, analyzing current public transport regulations, and developing a clear policy framework and action plan for introducing private participation.	8/31/04	247,050	Infrastructure development strategies	Non-Core (Sweden)
Kenya: High-Level Conference on Private Participation in Infrastructure Sectors	Supported a high-level conference to build consensus among key players around the policy initiatives and reforms required to increase private participation in infrastructure in Kenya.	Completed	75,000	Consensus building	Core
Madagascar: Improving the Regulatory Regime to Increase Private Participation in Telecommunications	Assisting the government in drafting a regulatory framework conducive to private participation and in developing a training plan for the staff of the regulatory agency.	6/30/04	359,600	Policy, regulatory, and institutional reforms	Core
Madagascar: Private Participation in the Port of Tolagnaro	Designing an arrangement for public-private partnership in improving and extending the Port of Tolagnaro (formerly Fort Dauphin).	6/30/04	260,000	Infrastructure development strategies	Core
Mali: Improving the Regulatory Frameworks of the Electricity and Water Sectors	Assessing the institutional, regulatory, and organizational structures of the water and energy sectors in Mali; recommending ways to improve regulatory oversight of the recently privatized water and energy company; and strengthening the current framework by identifying training needs.	6/30/04	238,920	Capacity building	Core

Activity	Description of activity	Target completion date	Funding approved (US\$)	Deliverable	Type of funding
SUB-SAHARAN AFRICA					
Mauritius: Institutional Strengthening of the Utility Regulatory Authority	Supporting the establishment and institutional strengthening of the Utility Regulatory Authority through assistance in defining its strategy, developing policies and operational procedures, and building capacity.	7/30/04	375,000	Policy, regulatory, and institutional reforms	Non-Core (Sweden)
Mauritius: Willingness-to-Pay Study for the Water and Sanitation Sector	Conducting a study to assess the willingness to pay for water and sanitation services in Mauritius and evaluate how adjusting the level and structure of tariffs as a private operator is introduced in the sector would affect demand.	3/04/04	125,000	Infrastructure development strategies	Core
South Africa: Private Participation Option Study for King Shaka International Airport	Preparing a report recommending the most feasible option (or options) for involving the private sector in designing, financing, operating, and maintaining the new King Shaka International Airport in Durban.	6/30/04	190,000	Infrastructure development strategies	Non-Core (Sweden)
Swaziland: Private Participation in the Railway Sector	Assisting in designing the optimal regulatory framework for private participation in the railway sector.	6/30/04	190,000	Pioneering transactions	Non-Core (Sweden)
Uganda: Multisectoral Transport Regulatory Agency	Designing a regulatory framework for railway, waterway, public road passenger, and public road freight transport with the aim of helping to increase private participation in transport and support the upcoming railway concession in Uganda.	11/30/04	339,780	Policy, regulatory, and institutional reforms	Non-Core (Sweden)
Zambia: Building Consensus among Water Sector Stakeholders in Lusaka	Assisting the government in building consensus and sharing knowledge among stakeholders on the implementation of the chosen option for private participation in the water sector. The activity builds on the results of an earlier activity (the Private Sector Participation Options Report) and on the outcome of the related stakeholders workshop.	12/31/03	198,989	Consensus building	Core
Regional: African Forum for Utility Regulation—Launch and Workshop	Financed a high-level meeting of utility regulators in Pretoria, South Africa, in November 2002 and formally launched the African Forum for Utility Regulation (AFUR). A workshop was held to set up AFUR and to discuss corporate governance issues and challenges facing African regulators in light of the New Partnership for Africa's Development.	Completed	196,000	Capacity building	Core
Regional: Energy Summit	Conducted an energy summit for senior and high-level African managers to address key technical, economic, regulatory, and financial issues affecting the energy sectors in Africa and to examine strategies for attracting private participation in the region in line with the Millennium Development Goals and the New Partnership for Africa's Development.	Completed	32,250	Consensus building	Core
Regional: Private Participation Option Study on Tanzania-Zambia Railway Authority	Preparing a study exploring the options for private participation in the Tanzania-Zambia Railway Authority (Tazara) and recommending the most feasible scenario for privatizing Tazara.	7/01/04	370,150	Infrastructure development strategies	Non-Core (Sweden)
Regional: Training of East African Regulatory Agencies	Training the technical staff of targeted regulatory agencies in the techniques needed for electricity regulation.	6/30/04	138,500	Capacity building	Non-Core (Sweden)

Activity	Description of activity	Target completion date	Funding approved (US\$)	Deliverable	Type of funding
EAST ASIA AND PACIFIC					
Cambodia: Legal, Institutional, and Procedural Framework for Transactions for Private Participation in Infrastructure	Preparing a review of the constraints to successful and sustainable private participation in infrastructure in Cambodia; drawing on international best practices to help implement legislative, procedural, and institutional changes to strengthen governance in the sector; and developing a set of practical proposals for managing the general framework for transactions involving private participation across all infrastructure sectors.	2/27/04	367,410	Policy, regulatory, and institutional reforms	Non-Core (Japan)
China: Options for Private Participation in Water and Electricity in Yunnan Province	Preparing an international workshop in Kunming, in Yunnan Province, to explore options for private participation in water and electricity. The workshop will be aimed at exposing successful global experiences in public-private infrastructure and identifying necessary changes in the government's role.	6/30/04	120,650	Infrastructure development strategies	Core
Indonesia: Feasibility of the Umbulan Water Source for Surabaya and Adjacent Towns	Preparing a feasibility study of a build-own-operate-transfer (BOOT) project or a reverse BOOT project to tap, treat, and convey the water from the Umbulan spring so as to increase the water supply for Surabaya (the capital of East Java) and surrounding cities (Gresik, Pasuruan, and Sidoarjo).	12/31/03	74,000	Infrastructure development strategies	Core
Lao PDR: Implementation of a National Water Tariff Policy and Development of Management Models for the Water and Sanitation Sector	Developing the capacity of institutions (including the private sector) to understand the mechanisms of public-private partnership and make different options available; and supporting the development of appropriate models for managing water supply and sanitation services for populations of various sizes that can be adapted over time and to different locations.	12/31/03	182,500	Consensus building	Core
Lao PDR: Strengthening the Telecommunications Regulatory Regime	Analyzing the sector policy and regulatory regime while providing inputs to a detailed design for a regulatory regime, including institutional capacity building; developing regulatory processes and procedures; drafting interconnection and tariff regulation rules; and drafting a reference interconnection offer.	3/31/04	265,000	Policy, regulatory, and institutional reforms	Core
Vietnam: Private Sector Participation in Urban Transport through Private Operators in Hanoi	Reviewing and documenting the present state of bus transport in Hanoi and presenting alternative models for soliciting private participation in the sector based on international experience and related urban and transport services.	6/30/04	250,000	Infrastructure development strategies	Core
Regional: Establish a Regional Utility Regulatory Network	Organizing a workshop to address the challenges of utility regulation in the region and initiate the development of a regional utility regulation forum. The event was planned to coincide with the fourth APEC (Asia-Pacific Economic Cooperation) Privatization Forum in Bangkok, Thailand.	12/31/03	74,227	Capacity building	Core
Regional: Promoting Private Investment in Railways in the Region	Identifying best practices for promoting private investment in railways in Asia, with a regional workshop to discuss global best practices for encouraging private investment and to disseminate the findings to key stakeholders.	6/30/04	254,000	Emerging best practices	Non-Core (Japan)

Activity	Description of activity	Target completion date	Funding approved (US\$)	Deliverable	Type of funding
EASTERN EUROPE AND CENTRAL ASIA					
Albania: Communication Program for Private Participation in Municipal Water and Wastewater	Conducting a needs assessment to identify prevailing perceptions, attitudes, and beliefs about private participation in the provision of municipal water and wastewater services.	5/24/04	75,000	Capacity building	Core
Azerbaijan: Implementing the Regulatory Framework in Electricity, Natural Gas, and Water	Developing and implementing a transition plan for tariffs, including provisions for social protection, in the privatization of water, electricity, and natural gas; and assisting the government in decisions on key institutional issues, such as the optimal scope and structure of regulation, clarification of the legal framework, and institutional strengthening.	6/30/04	858,700	Policy, regulatory, and institutional reforms	Core
Bulgaria: Drafting of Legislation to Establish a Water Regulator	Assisting Bulgarian authorities in finalizing legislation establishing a water regulator following the recently approved water strategy for the country, and providing support to the municipalities involved in the Varna-Shumen concession by outlining the water regulator's role and responsibilities.	12/31/03	75,000	Policy, regulatory, and institutional reforms	Core
Georgia: Private Participation in Georgia's Water and Wastewater Sector	Reviewing the water and wastewater sectors and recommending appropriate solutions for private participation that will improve cost efficiency and revenue performance. The activity will focus on mobilizing domestic and international managerial and technical know-how in operating and managing existing assets and in planning and implementing new investments.	7/01/04	471,445	Pioneering transactions	Core
Kazakhstan: Reform of the Telecommunications Sector and Accession to the World Trade Organization	Supporting the government's national reform program, designed to promote private participation in telecommunications through substantive policy dialogues that should also facilitate accession to the World Trade Organization.	12/31/03	72,500	Policy, regulatory, and institutional reforms	Core
Russian Federation: Universal Access to Telecommunications—Strategy and Pilot for Russia	Conducting a study on access to telecommunications in underserved and isolated areas of the Russian Federation and on the challenges of expanding access; identifying strategies to promote universal access by using private service providers to invest in, scale up, and roll out service in a pioneering transaction; and presenting the results of the study at a workshop with stakeholders, including consumer groups and the private sector.	8/02/04	443,250	Infrastructure development strategies	Core
Serbia and Montenegro: Building Regulatory Capacity in Support of Private Participation in Solid Waste Management in the City of Belgrade	Developing a solid waste management strategy for Belgrade that promotes private participation in the sector and building regulatory capacity to handle the responsibilities associated with regulation, long-term planning, administration, and contract monitoring.	6/30/04	285,735	Pioneering transactions	Core
Regional: South Caucasus Rural Telecommunications Strategy	Developing a regional strategy for ensuring universal access to telecommunications in the South Caucasus through the promotion of private participation, as recommended in an earlier PPIAF activity. The strategy will identify regulatory bottlenecks and solutions with financing alternatives to attract private investment, including a pilot project to reach rural and underserved areas. Workshops will be held to build consensus on agreed solutions.	6/30/04	474,250	Pioneering transactions	Core

Activity	Description of activity	Target completion date	Funding approved (US\$)	Deliverable	Type of funding
LATIN AMERICA AND THE CARIBBEAN					
Bolivia: Gas Market Development Study	Conducted a study on the regulatory and institutional issues in developing the domestic and Brazilian natural gas markets and a detailed analysis of incentives required to attract private investors in projects for external markets.	Completed	75,000	Infrastructure development strategies	Core
Guatemala: Concessioning Strategies for Ports and Airports	Assisting key stakeholders and the Guatemalan legislature in reviewing, reaching consensus on, and improving the legal framework for granting infrastructure concessions; facilitating the implementation of a modern concession law and a maritime and port law; and assisting in establishing a new port authority.	3/31/04	471,250	Consensus building	Core
Peru: Develop a Regulatory Model to Improve the Tariff Structure in the Water and Sanitation Sector	Preparing a diagnostic study of the current model for regulatory tariff formulation and assisting in the design of a new model, with guidelines and alternative solutions.	6/30/04	75,000	Policy, regulatory, and institutional reforms	Core
Peru: Provision of Telecommunications Services to Rural and Periurban Areas	Conducting a study aimed at developing new programs, government policies, or regulatory policies that will create incentives for the private sector to extend telecommunications infrastructure to underserved areas.	6/30/04	318,640	Infrastructure development strategies	Core
Regional: Regional Initiative to Build Capacity among Water and Sewerage Regulators	Strengthening the Association of Water and Sanitation Regulatory Agencies of the Americas (ADERASA), founded in 2001, by designing regulatory tools for member countries (performance database, regulatory accounting guidelines), developing a business plan for the association, and carrying out dissemination activities.	12/30/04	522,500	Capacity building	Core
Regional: Workshop for Utility and Transport Regulators in Latin America	Prepared a training course for regulators on techniques for measuring productivity and efficiency.	Completed	72,500	Capacity building	Core
Regional: Workshop on the Water Sector in Central America	Organized a workshop in San José, Costa Rica, for Central American decisionmakers, to present and discuss options for modernizing the water sector, mainly through public-private partnerships.	Completed	60,650	Consensus building	Core
MIDDLE EAST AND NORTH AFRICA					
Lebanon: First-Generation Gas Transmission and Distribution Law	Drafting a first-generation gas law that follows international best practices, outlining the main elements of intergovernmental gas agreements for gas imports, and holding consensus building workshops to present the draft framework to stakeholders.	6/30/04	71,260	Policy, regulatory, and institutional reforms	Core
Tunisia: Strategy for Private Participation in Infrastructure	Developing a coherent, comprehensive strategy for private provision of infrastructure or private participation in infrastructure, including an action plan for modernizing the legal, regulatory, and institutional framework of infrastructure sectors.	12/31/03	132,000	Infrastructure development strategies	Core
Regional: Funding for a Workshop and Marketplace-Enhancing Private Participation in the Water and Energy Sectors in the Region	Sponsored a two-day workshop in Lebanon to review critical financing and policy needs for the water and power sectors in the world's driest region and promoting private participation through strengthened regulatory frameworks. The event was geared toward 150 participants from governments, the private sector, and the donor community.	Completed	70,900	Capacity building	Core

Activity	Description of activity	Target completion date	Funding approved (US\$)	Deliverable	Type of funding
SOUTH ASIA					
Afghanistan: Strengthening Telecommunications Regulation	Strengthening and supporting the initial creation of transparent regulatory institutions and a regulatory unit within the Ministry of Communication, including designing regulatory frameworks, regulations, institutional structures, and procedures and providing capacity building and support for the participation of stakeholders.	3/01/04	468,800	Policy, regulatory, and institutional reforms	Core
Bangladesh: Strengthening the Regulatory Framework of the Bangladesh Telecommunications Regulatory Commission	Strengthening the regulatory framework of the Bangladesh Telecommunications Regulatory Commission, the country's first independent infrastructure regulator, so as to enable the agency to effectively carry out sector reform and promote private participation.	6/30/04	343,000	Policy, regulatory, and institutional reforms	Core
India: Private Participation in Infrastructure in the Himachal Pradesh Electricity Regulatory Commission	Providing technical assistance in reviewing relevant studies and proposals submitted by the Himachal Pradesh state electricity board to the Himachal Pradesh Electricity Regulatory Commission, with the aim of helping the commission achieve its goal of rationalizing tariffs in the state and helping build the capacity of its staff.	12/31/03	75,000	Policy, regulatory, and institutional reforms	Core
India: Privatization of State Highways in Chhattisgarh	Preparing a model concession agreement and the regulatory and policy framework for build-operate-transfer road projects in the newly created state of Chhattisgarh, and supporting a study tour for key state decisionmakers to selected international locations to gain first-hand understanding of private participation in highways.	12/30/04	370,000	Policy, regulatory, and institutional reforms	Core
Pakistan: Gas Transmission Development Strategy and Framework for Private Participation	Designing a medium-term framework for the development of the gas system in Pakistan based on expected demand, the location of potential gas reserves, network development alternatives, the feasibility of a parallel transmission system for low-Btu gas, storage options, and other parameters.	6/30/04	400,000	Infrastructure development strategies	Core
Sri Lanka: Establishing a Legal Framework for Private Participation in the Water and Sanitation Sector	Developed recommendations for establishing an appropriate legal framework for private participation in water and sanitation, based on a review of draft legislation and ensuring consistency in approach between draft sectoral legislation and other regulatory acts and bills.	Completed	63,200	Policy, regulatory, and institutional reforms	Core
Regional: Prefeasibility Study for an Asia Private Infrastructure Financing Facility	Reviewing experience in promoting private infrastructure investment, including the development and operation of the Emerging Africa Infrastructure Fund and the Community-Led Infrastructure Finance Facility and the experience and knowledge generated by PPIAF's work in Asia.	3/31/04	380,000	Infrastructure development strategies	Core
Regional: South Asia Forum for Infrastructure Regulation—Capacity Enhancement Program	Supporting the South Asia Forum for Infrastructure Regulation (SAFIR) by preparing a workshop on pricing strategy; providing start-up funding for a biannual publication (the <i>Infrastructure Reporter</i>); and providing support for a study on a code of ethics and for such activities as a quarterly newsletter, Web site update, and administration and organization of annual steering committee meetings.	12/31/04	297,476	Capacity building	Core

Activity	Description of activity	Target completion date	Funding approved (US\$)	Deliverable	Type of funding
GLOBAL					
Development of the Body of Knowledge for Regulatory Professionals	Preparing a body of knowledge, in the form of a comprehensive annotated reading list and a glossary of terms, for professionals in economic regulation.	1/15/04	282,500	Capacity building	Core
Emerging Lessons in Consensus Building and Stakeholder Communications in Public-Private Infrastructure	Conducting an analysis of communications and consensus building activities in private participation in infrastructure based on a review of literature and recent materials on private participation in infrastructure, case studies of experiences, public opinion polls, and donor projects and activities.	12/31/03	74,500	Emerging best practices	Core
Global Mapping Initiative for Small-Scale Private Service Providers in Electricity and Water Supply	Compiling and analyzing information and data on small-scale private infrastructure providers to identify barriers to their growth and to identify actions—by policymakers, investors, and other stakeholders—required to improve the quality of these providers' services, to reduce their prices, and to expand their role in providing water and electricity to poor people.	6/30/04	74,600	Emerging best practices	Core
Implementing Transactions for Long-Term Public-Private Contracts in the Water Sector	Preparing practical guidelines on the bidding for—and subsequent management of—public-private contracts in the water sector. Where possible, the guidelines will include model contract clauses to assist policymakers and advisers in preparing transactions in timely and cost-effective ways.	6/30/04	236,500	Capacity building	Core
Strategy for Cross-Border Infrastructure Investment in Landlocked Developing Countries	Surveying strategies for enabling cross-border private investment in transport infrastructure for landlocked countries.	12/31/03	74,000	Emerging best practices	Core
Toolkit for Water and Sanitation Reform	Designing, preparing, and disseminating a multimedia toolkit on best practices in water and sanitation reform, emphasizing such themes as pro-poor design strategies (including the regulation of entry by small-scale providers and the use of output-based aid), the design of private participation in water and sanitation services in small towns, and challenges in private participation in sanitation services.	9/01/05	550,000	Emerging best practices	Core
Transport CD-ROM for Learning	Preparing a CD-ROM (in English, French, and Spanish) offering a self-paced learning instrument on financial and economic modeling and tariff revisions for regulators and members of transport privatization teams.	12/31/03	73,700	Capacity building	Core
Total			14,304,305		

Annex2



PPIAF Work Programs for Fiscal 2003 and 2004

(percentage share of program)

	Fiscal 2003 Indicative Work Program	Fiscal 2003 Actual Work Program	Fiscal 2004 Indicative Work Program
Activities in key areas of action	73	79	70
Infrastructure development strategies	28	23	20
Policy, regulatory, and institutional reforms	28	27	28
Consensus building	7	6	7
Capacity building	8	14	10
Support to pioneering projects and transactions	2	9	5
Identification, dissemination, and promotion of emerging best practices	11	6	15
Conferences and toolkits	8	5	12
Other	3	1	3
Project Management Unit expenditures	16	15	15
Total	100	100	100

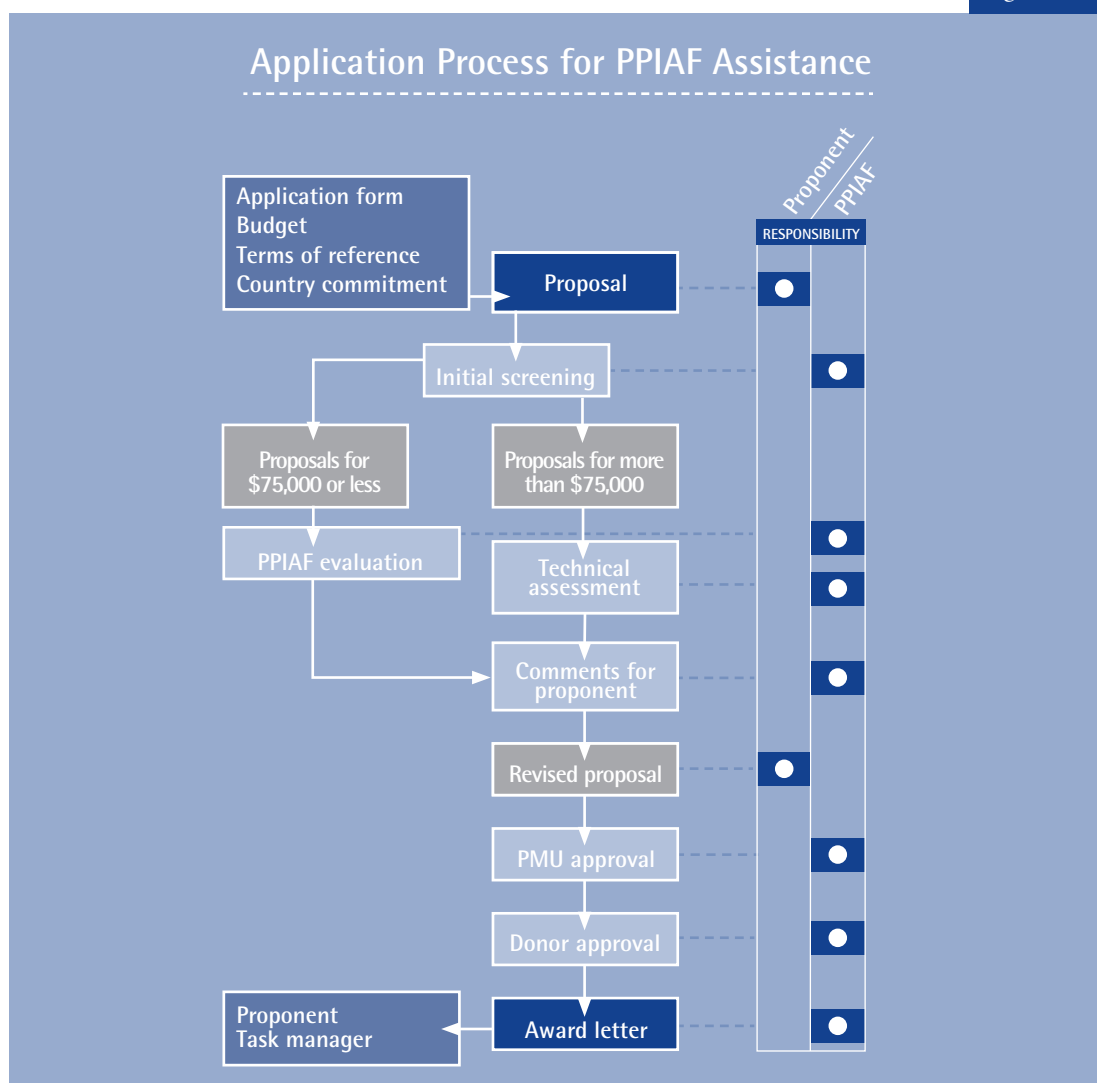
Annex3



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



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.

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

PHOTO CREDITS

Page i (people carrying wood), Page i (transformer)
Page iii (ship) Page iii (transformer) TOC page (solar panel)
Page 28 (four men in hard hats) Page 29 (train transformer,
man in hard hat) Page 34 (two men on power line) Page 41
(road), All from the World Bank Archives
Page i (man fixing electric box), Sous Tida
Page ii (ship dock), Dominique Sansoni, World Bank
Page iii (steamroller), Tran Thi Hoa, World Bank
Page v (road with car and truck), Curt Carnemark, World Bank
Page 3 (boy on public phone) Trevor Samson, World Bank
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