

Annual  
Report  
2004

HELPING TO  
ELIMINATE POVERTY  
*and achieve*  
*sustainable development*  
*through*  
*Private Involvement*  
IN INFRASTRUCTURE



 **PPIAF**

PUBLIC-PRIVATE INFRASTRUCTURE ADVISORY FACILITY

HELPING TO **ELIMINATE** POVERTY

*and achieve*

*through* *sustainable development*

*private involvement*

**IN INFRASTRUCTURE**



# ANNUAL REPORT 2004



## PPIAF at a Glance

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







## How PPIAF Pursues Its Mission

PPIAF pursues its mission through two main mechanisms:

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

## What Support Is Available

PPIAF can finance a range of advisory and related activities in a single country or across multiple countries:

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

PPIAF assistance can facilitate private involvement in the financing, ownership, operation, rehabilitation,

maintenance, or management of eligible infrastructure services: roads, ports, airports, railways, electricity, telecommunications, solid waste, water and sanitation, and gas transmission and distribution. Countries eligible for PPIAF-financed assistance include developing and transition economies as listed from time to time by the Development Assistance Committee of the Organisation for Economic Co-operation and Development.

## How to Apply for PPIAF Support

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

## How PPIAF Delivers Services

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



## The Impact of PPIAF's Activities

PPIAF's governing body, the Program Council, has from the beginning 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 mark progress toward their intended objectives. Thus the impact of PPIAF's portfolio, though only five years old at the end of fiscal 2004, can already be identified—in the design of innovative transactions, the establishment and strengthening of institutions related to private participation in infrastructure, the drafting and passage of legislation, the training of regulators and policymakers, and the public education and consensus building around the agenda for private participation in infrastructure.



## Transactions

Since PPIAF's creation in 1999, it has assisted in the design of 53 transactions involving private participation in infrastructure, with 22 of these already awarded and the other 31 under development or pending award. These transactions include auctions of mobile telecommunications licenses, management contracts and leases in water and sanitation, privatizations of national railroads and power utilities, small-scale rural output-based and community infrastructure contracts, and long-term concessions for roads, ports, and water systems.

## Institutions

PPIAF has funded initiatives to create or strengthen 32 institutions dedicated to the sustainable growth of private participation in infrastructure. Located throughout the developing world, 7 of these institutions are regulatory associations or project development organizations established at the regional level. The other 25 are predominantly national single- or multisector regulatory bodies.

## Legislation

PPIAF has funded work to draft 38 laws and accompanying sets of regulations relating to reform and regulation of the infrastructure sector as a whole or of ports, power, telecommunications, or water and sanitation. So far 11 of these laws have been passed, while the other 27, along with related decrees or regulations, are under debate or pending legislative action.

## Reform Strategies

Governments often seek advice on framing infrastructure development strategies that take full advantage of the potential offered by private involvement. As a result of PPIAF-funded recommendations on such strategies, 15 countries have adopted or are now implementing sector reform programs—19 in total—in gas, water, power, transport, and telecommunications. These reforms involve core strategies on market structure and competition, on rural investment and subsidy design, and on regulatory frameworks and capacity building.

## Training of Regulators and Policymakers

PPIAF has funded more than 123 training courses and workshops, primarily on regulation, sector reform, and private participation. These have been attended by more than 12,000 stakeholders, including government officials, donor advisers, investors, operators, financiers, journalists, regulators, and representatives of labor unions, consumer groups, and nongovernmental organizations.

## Dissemination of Emerging Lessons

PPIAF makes available the results of its workshops and conferences, along with the toolkits, papers, and case studies used to drive the public debate about the role of public-private partnerships in infrastructure service provision. Its 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"). Toolkits draw together emerging best practices on issues relating to private involvement, focusing on a single sector or on a theme that cuts across several sectors. In fiscal 2004 the home pages for toolkits together attracted more than 42,500 visits, with each toolkit being downloaded more than 3,800 times.









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## Section 1



# The Challenge of Infrastructure

Infrastructure is about delivering services essential for maintaining a basic standard of living—roads, water, energy, sanitation, and telecommunications. These services help improve health, access to education, and economic opportunities. Yet they remain beyond the reach of millions of people in poor countries. Some 1.1 billion people lack access to clean water, around 2.4 billion live without adequate sanitation, and 2–3 billion have no access to modern energy. Roughly 20 percent of the rural population lives more than 2 kilometers from an all-weather road.

## Trends in Private Participation in Infrastructure, 1990–2003

The final decade of the 20th century has been described as the boom period for private participation in infrastructure. There was a rapid and dramatic shift away from public provision of infrastructure services, spurred primarily by poor public performance. Indeed, annual losses due to pricing policies and inefficiencies of public utilities were estimated to be almost equal to annual investment.<sup>1</sup>



Expanding access to good infrastructure services will require sizable investments—estimated at \$500 billion a year, or about 7 percent of GDP, for all developing countries. Financing these investments will be a challenge. During the 1990s official development assistance financed less than 10 percent of investment in developing country infrastructure, the private sector about 22 percent, and developing countries the rest (figure 1.1). Moreover, both private investment and official development assistance have declined in recent years.

Meeting the infrastructure challenge will require a concerted effort by all parties, and new and innovative models of public-private partnership. But greater investment alone will not be enough. The investment must be underpinned by improvements in developing countries' policy and governance frameworks, especially in the capacity of key institutions to ensure effectiveness and sustainability.

Investment in infrastructure projects with private participation in developing countries rose steadily through most of the 1990s, from \$18 billion in 1990 to a peak of nearly \$130 billion in 1997. By 2003 over \$890 billion had been invested in more than 2,700 projects. The biggest investments were in telecommunications and power and in Latin America and East Asia. But successful private infrastructure projects were implemented in 136 low- and middle-income countries and across all sectors, with the transport sector attracting investment of \$143 billion and the water sector \$45.5 billion.

After peaking in 1997, however, investment in private infrastructure projects declined sharply. By 2003 investment flows had fallen to 1994 levels. In that year 107 projects reached financial closure in 47 countries, representing investment commitments of \$50 billion. East Asia and the Middle East and North Africa were the only developing regions that saw private activity grow in 2003, while Latin America watched investment decline for the fifth consecutive year (figure 1.2). And while telecommunications continued to dominate private activity, electricity was the one sector in which private activity grew, by 46 percent (figure 1.3). The water sector had the biggest decline, with investment falling to its third lowest level in 1990–2003.

<sup>1</sup> World Bank, World Development Report: Infrastructure for Development (New York: Oxford University Press, 1994).



Many factors prompted this big decline, including the macroeconomic and financial crises in some developing countries, the global bear market since 2000, and incomplete reforms in the host countries. High-profile project failures in emerging markets and industrial countries and the failure of private participation to meet the high expectations added to popular discontent with the model in many developing countries. Moreover, contract renegotiations became increasingly frequent over the period, with as many as 74 percent of transport and 55 percent of water concessions in Latin America being renegotiated.<sup>2</sup> Outright cancellations and re-nationalizations also occurred, though they were less common, accounting for only 3 percent of all investment during the period.

Despite some disappointing results, private activity remains a significant factor in achieving infrastructure goals in developing countries. The private investment flows of \$60 billion a year in 2001–03—though far smaller than the annual flows of about \$100 billion in the boom period of 1995–99—still accounted for about 20 percent of all infrastructure investment in developing countries. Moreover, developing countries' need for infrastructure investment is large and growing, estimated at \$120 billion a year until 2010 for electricity and \$49 billion a year until 2015 for water and sanitation. Given competing priorities for spending, especially social services, governments in poor countries will be simply unable to meet this need alone. The challenge in the coming years is to develop new forms of collaboration that harness the positive aspects of public-private partnership, including gains in efficiency, quality, and reliability, while dealing with the welfare and distributional effects of private participation, particularly issues of affordability and access.

### Emerging Lessons of 1990–2003

The disillusionment with private participation in infrastructure is unlikely to herald a dramatic return

2. J. Luis Guasch, Jean-Jacques Laffont, and Stéphane Straub, *Trends and Policy Options Paper (PPIAF, Washington, D.C., forthcoming)*. "Renegotiation of Concession Contracts in Latin America."

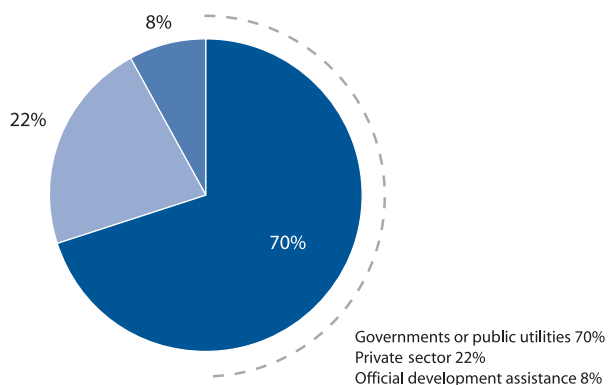
to public provision. Given the fiscal and institutional realities in most developing economies, achieving infrastructure goals without private investment will be virtually impossible. But in going forward, policy-makers will need to recognize that many of the failures of the previous period reflected a tendency to view private participation in infrastructure as a primarily technical challenge rather than as a fundamentally political one. Taking into account its political economy dimensions will be crucial if private provision is to be sustainable and is to benefit consumers of infrastructure services, particularly the poor.

Three emerging lessons of the period reflect evidence of the political economy aspects of private participation in infrastructure:

- *Becoming more pragmatic about who pays for infrastructure services.* Pricing infrastructure services raises challenging political economy issues because of the natural monopoly characteristics of many sectors, especially such politically sensitive sectors as water and power distribution. The introduction of private participation was often seen as an opportunity to implement long-delayed reforms. So transactions went hand in hand with large tariff increases, making private participation an easy political scapegoat for rising tariffs. In addition, governments and investors underestimated consumers' response to pass-through provisions in contracts and the ability of the poorest groups to pay for services. There is now growing acceptance that resolving the issue of who pays for infrastructure services requires a broader strategy, including increasing efficiency, matching service levels to users' ability to pay, and using targeted subsidies to improve access and affordability for the poorest of the poor.
- *Creating stable and credible contractual and regulatory frameworks.* Since competition in infrastructure services is not always possible, some form of economic regulation is inevitable.



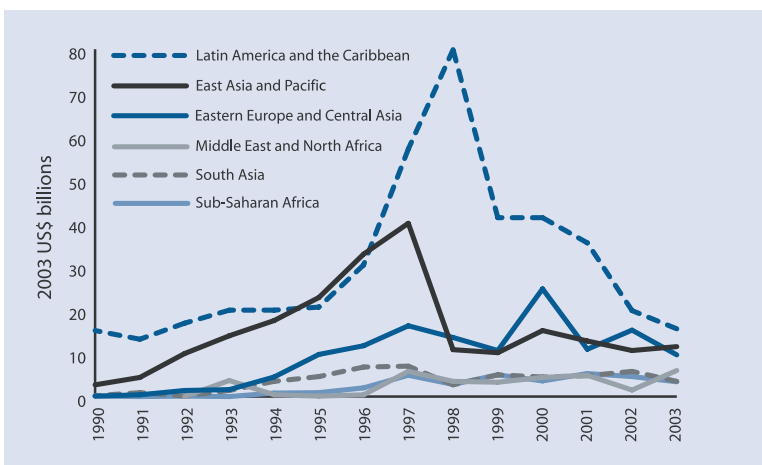
*Estimated Investment in Infrastructure in Developing Countries by Funding Source, 1990s*



*Figure 1.1*

Source: U.K. Department for International Development.

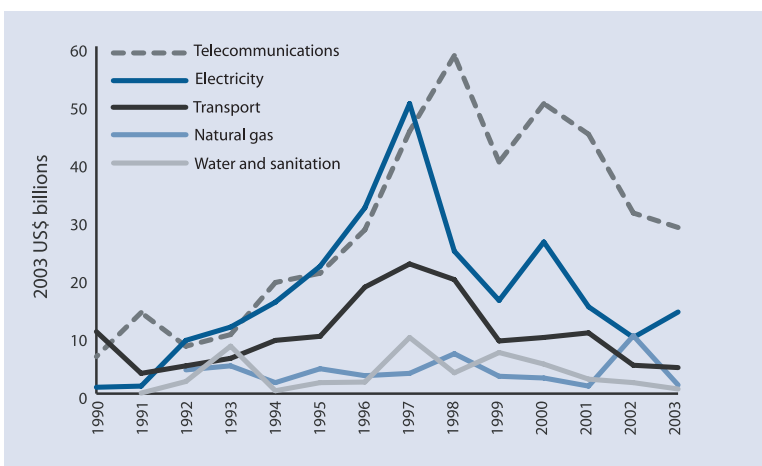
*New Investment in Private Infrastructure Projects in Developing Countries by Region, 1990–2003*



*Figure 1.2*

Source: World Bank, PPI Project Database.

*New Investment in Private Infrastructure Projects in Developing Countries by Sector, 1990–2003*



*Figure 1.3*

Source: World Bank, PPI Project Database.

Experience during the period revealed the limits of highly specified long-term concession contracts as the primary basis for regulation: since not all events can be foreseen, renegotiations were frequent, leading to high transaction costs. Experiments with independent regulatory agencies yielded similarly mixed results, often as a consequence of political capture but just as often because of a failure to match the regulatory discretion allowed an agency to its technical skills. The challenge will be to design regulatory frameworks that all stakeholders consider fair and effective, with an appropriate balance between regulatory flexibility and stability.

- *Dealing with financing and exchange rate risks.* Thin local capital markets expose projects to exchange rate risks associated with macroeconomic shocks and devaluations, and this exposure is often exacerbated by the effect of shocks on the demand for services as real incomes contract. The income effect of shocks suggests that simple indexation formulas to handle devaluation risks in concession contracts will not always be politically acceptable. But the development of local currency markets is a solution only in the long term, and even local currency bond or domestic pension fund financing is likely to be limited to a few countries in the short term. Moreover, governments are unlikely in the immediate term to shape macroeconomic policies to the needs of infrastructure projects. Self-hedging by linking prices to domestic inflation offers some possibilities for the future, with options including smaller projects, less debt, and credit enhancement instruments.

## Emerging Themes in Private Participation in Infrastructure

The emerging lessons point to several emerging themes for private participation in infrastructure in the years ahead, as governments embrace the model more cautiously, donors and multilateral agencies focus more on its distributional and political implications, traditional investors consolidate their assets and reassess their options, and new players take on a growing role. These themes reflect attempts to address the political economy challenges of private participation:

- *Wider range of options for private participation in infrastructure.* Most private activity in infrastructure in the past decade has taken the form of long-term concession contracts or outright sales of state assets. But private investors are now more reluctant to invest in countries in which political risk is perceived as high, and governments more reluctant to enter into long-term contracts, particularly for politically sensitive sectors like power and water. As a result, both governments and private investors have become more interested in shorter-term management contracts than in long-term concessions. When concession arrangements are developed, they are more likely to involve a public-private partnership than pure private financing.
- *Greater focus on improving regulatory systems for infrastructure provision.* Regulatory agencies' inability to protect the interests of consumers and investors and the effect of regulatory risk on project finance remain key obstacles to sustainable private participation. But given the limitations of highly specified long-term contracts and the political and technical challenges posed by discretionary regulation, policymakers need to explore other options for creating credible regulatory systems that give comfort to private investors. This reality too will push for designing contracts that are shorter and simpler—contracts that substantially reduce the need for discretionary regulation. It will also generate continued demand for technical assistance to build regulatory capacity.
- *Increased private activity in small-scale infrastructure.* Multinational operators have always been reluctant to invest in infrastructure projects in periurban and rural communities—even in the boom period—because of lack of scale economies and consumers' limited ability to pay. Meanwhile public utilities have traditionally been unable to expand coverage to these areas. Governments and donors are now beginning to acknowledge that small-scale private operators have an increasingly important part to play in providing basic infrastructure services to the poorest of the poor, and they are likely to pay more attention to creating environments that enable such providers to



flourish. PPIAF is already seeing interest in developing institutional frameworks that recognize such operators and involve them in increasing access to services in poorer areas.

- *Enhanced role for local and regional investors and operators.* The retreat of some traditional international operators from the larger infrastructure opportunities in developing countries has opened a significant gap—and local and regional investors and operators are beginning to fill it. In East Asia regional investors accounted for the two largest electricity transactions in 2003. In India BSES and Tata Power, two long-time private distribution companies, have made acquisitions in new areas and may yet be seen outside their home market. In southern Africa companies like NetGroup (South Africa) and Electricity Distribution Management (Namibia) are seeking to leverage experience gained in low-cost, commercially oriented rural electrification into broader investment and management opportunities outside their home countries—in East Africa as well as in their own region.
- *Greater role for local markets in financing infrastructure.* As the sharp drop in international private financing for infrastructure has prompted governments to rely more on capital markets, there has been growing interest in tapping local currency markets. At the same time fiscal and political decentralization in many developing countries, by shifting responsibility for revenue collection and service provision to local governments, has led to a need for infrastructure financing at the subnational level, such as for urban water supply and sanitation projects. Local governments can raise private finance, including through domestic credit and capital markets, to fund large capital investments. But subnational borrowing requires an institutional and regulatory framework to ensure an overall fiscal balance for national and subnational government.



## The Role of the Public-Private Infrastructure Advisory Facility

Recognition of the critical role of infrastructure services in achieving growth and poverty reduction, and of the importance of the legal, institutional, and policy environment in promoting effective public-private partnerships, is what led to the creation of PPIAF, in July 1999. The mandate of PPIAF is to provide technical assistance grants aimed at helping developing countries improve the quality of their infrastructure through private sector involvement. These grants can support a range of activities in the complex process of introducing private participation in infrastructure, including building consensus, devising sector reform strategies, drafting laws, establishing or strengthening institutions, and facilitating transactions.

A multidonor facility, PPIAF complements and reinforces the activities of official donors. Its aim is to improve the quality, coherence, and coordination of technical assistance in support of public-private partnerships in infrastructure while mobilizing and leveraging donor resources.



## Section 2



## Operations

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.

From its inception in 1999 through June 30, 2004, PPIAF provided 330 grants of more than \$76 million. This section summarizes PPIAF's fiscal 2004 portfolio and highlights some completed activities, describing their impact, along with selected activities still under way.

### The Fiscal 2004 Portfolio: An Overview

PPIAF funded a range of activities in all eligible sectors and across all developing regions in its fifth year of operation. In the fiscal year ending June 30, 2004, the PPIAF portfolio included activities in more than 36 countries, with 12 regional activities among them. In fiscal 2004 alone PPIAF approved funding for 63 activities for a total value of \$14.2 million. Additional cofinancing of about \$6.5 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, East Asia and Pacific accounted for the largest share of activities and funding in fiscal 2004, followed closely by Sub-Saharan Africa and Latin America and the Caribbean (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.

PPIAF supports a range of eligible infrastructure sectors:

- Water—water and sanitation 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 2004 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. These multisector activities included 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, railroads, and telecommunications.





**Table 2.1** PPIAF Activities and Funding by Region, Sector, and Deliverable, Fiscal 2004

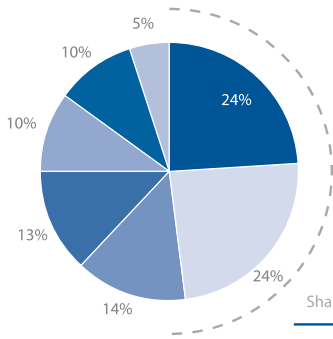
Region	Number of activities	Funding (US\$)	Share of activities (%)	Share of funding (%)
Sub-Saharan Africa	15	3,145	24	22
East Asia and Pacific	16	3,799	24	27
Latin America and the Caribbean	9	2,140	14	15
Eastern Europe and Central Asia	8	1,608	13	11
South Asia	3	1,149	5	8
Middle East and North Africa	6	811	10	6
Global	6	1,568	10	11
<b>Total</b>	<b>63</b>	<b>14,221</b>	<b>100</b>	<b>100</b>
<b>Sector</b>				
Multisector	28	6,054	44	42
Water and sanitation <sup>a</sup>	10	2,700	16	19
Energy	13	2,229	21	16
Transport	5	1,701	8	12
Telecommunications	7	1,536	11	11
<b>Total</b>	<b>63</b>	<b>14,221</b>	<b>100</b>	<b>100</b>
<b>PPIAF deliverable</b>				
Policy, regulatory, and institutional reforms	17	4,378	28	31
Infrastructure development strategies	14	3,599	22	25
Capacity building	14	2,528	22	18
Emerging best practices	7	2,008	11	14
Consensus building	9	948	14	7
Pioneering transactions	2	759	3	5
<b>Total</b>	<b>63</b>	<b>14,221</b>	<b>100</b>	<b>100</b>

a. Including solid waste.



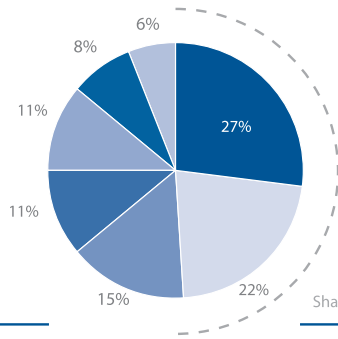
Distribution of the PPIAF Portfolio, Fiscal 2004

Figure 2.1



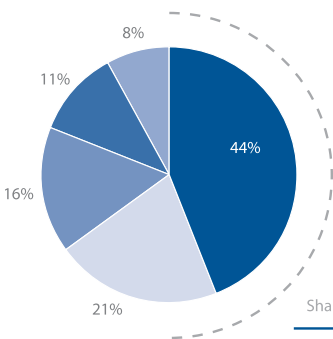
Share of activities by region

Sub-Saharan Africa 24%  
 East Asia and Pacific 24%  
 Latin America and the Caribbean 14%  
 Eastern Europe and Central Asia 13%  
 Middle East and North Africa 10%  
 Global 10%  
 South Asia 5%



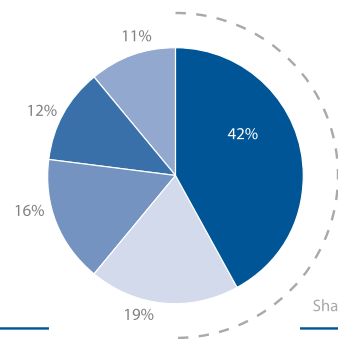
Share of funding by region

Sub-Saharan Africa 22%  
 East Asia and Pacific 27%  
 Latin America and the Caribbean 15%  
 Eastern Europe and Central Asia 11%  
 Global 11%  
 South Asia 8%  
 Middle East and North Africa 6%



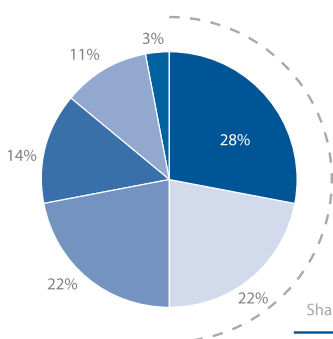
Share of activities by sector

Multisector 44%  
 Energy 21%  
 Water and sanitation 16%  
 Telecommunications 11%  
 Transport 8%



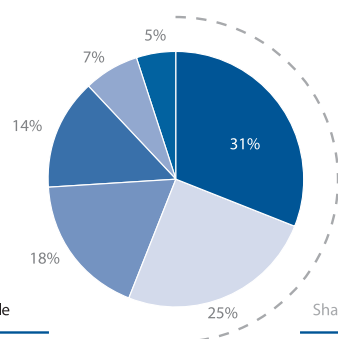
Share of funding by sector

Multisector 42%  
 Water and sanitation 19%  
 Energy 16%  
 Transport 12%  
 Telecommunications 11%



Share of activities by PPIAF deliverable

Policy, regulatory, and institutional reforms 28%  
 Infrastructure development strategies 22%  
 Capacity building 22%  
 Consensus building 14%  
 Emerging best practices 11%  
 Pioneering transactions 3%



Share of funding by PPIAF deliverable

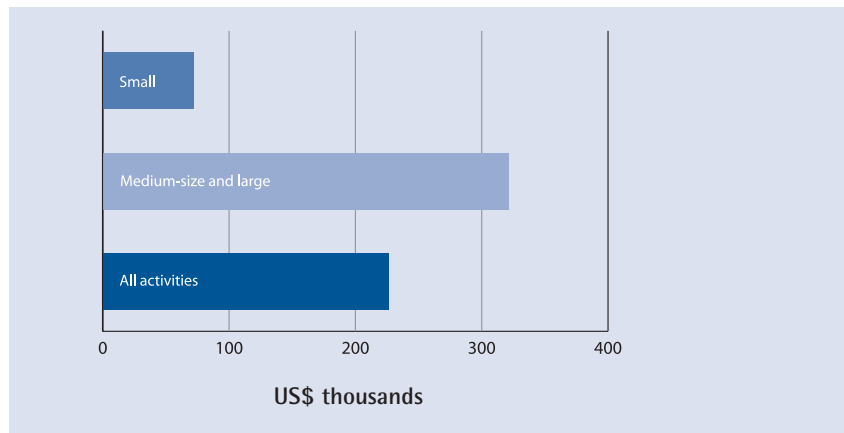
Policy, regulatory, and institutional reforms 31%  
 Infrastructure development strategies 25%  
 Capacity building 18%  
 Emerging best practices 14%  
 Consensus building 7%  
 Pioneering transactions 5%

Table 2.2 PPIAF Activities by Size, Fiscal 2004

Size	Number of activities	Funding (US\$ thousands)	Share of activities (%)	Share of funding (%)
Small	23	1,718	36	12
Medium-size	13	2,395	21	17
Large	27	10,107	43	71
Total	63	14,220	100	100

Figure 2.2

Average Size of PPIAF Activities, Fiscal 2004



### Size of Activities

Small activities (\$75,000 or less), with an average value of \$74,695, accounted for 23 of the 63 approvals in fiscal 2004, for a total value of \$1.7 million (table 2.2; 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 (\$12.5 million), with an average size of \$311,450. The average size for all activities was \$225,015.

### Portfolio Review of Selected Activities

This section summarizes selected activities that have been undertaken under one or more of the six categories of PPIAF deliverables:

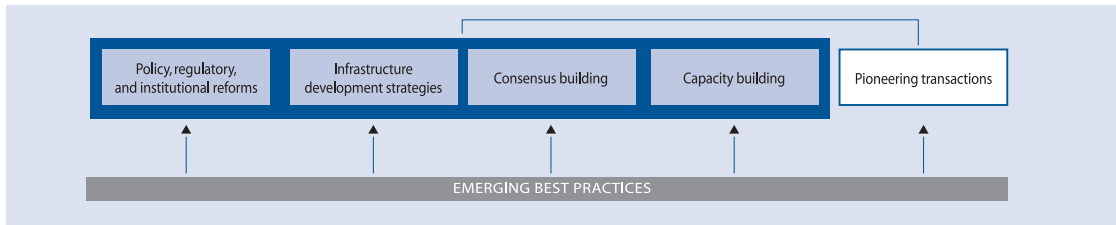
- Policy, regulatory, and institutional reforms.
- Infrastructure development strategies.
- Consensus building.
- Capacity building.
- Support to pioneering projects and transactions.
- Identification, dissemination, and promotion of emerging best practices, a category common to and underlying the first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

The most common PPIAF activities in fiscal 2004 by type of deliverable were policy, regulatory, and institutional reforms, followed by infrastructure development strategies and capacity building (see table 2.1).

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. Similarly, a regulatory reform program classified as a policy, regulatory, and institutional reform activity 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. (See annex 1 for a brief description of fiscal 2004 activities classified by deliverable.)

PPIAF Deliverables

Figure 2.3



### Policy, Regulatory, and Institutional Reforms

28%

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 2004 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 17 activities classified as policy, regulatory, and institutional reforms during the fiscal year.

Activities in this area include a regional initiative in West Africa to improve telecommunications connectivity across borders and projects aimed at supporting development of the power sectors in East Timor and Cambodia (boxes 2.1–2.3). Other activities cover a range of countries and sectors:

- In **BOTSWANA** PPIAF is assisting the government in developing optimal regulatory arrangements and legal reforms for all infrastructure sectors except telecommunications, where this work has been completed. The activity includes formulating appropriate regulation, drafting legislation to implement and support the proposed regulatory reform, designing proposed regulatory agencies, and holding extensive consultations with stakeholders to create consensus around the proposed legal and regulatory reforms.
- In **VIETNAM** PPIAF is supporting the country's bid for accession to the World Trade Organization by reviewing the operations and regulatory framework of the transport and logistics industry and assisting the Ministry of Transport in analyzing the effectiveness of economic regulations as applied to such subsectors as air freight, road freight, trade insurance, coastal shipping, and inland waterways. This activity will provide guidance to the government on amending legislation and establishing a new regulatory regime for transport.
- In **CAMBODIA** PPIAF is assisting the government in achieving its Millennium Development Goals in water and sanitation by fostering partnerships with private operators in financing, operating, constructing, and managing water supply and sanitation facilities for low-income communities. This activity is aimed at helping to establish a contract administration unit to manage leases and management contracts until a stable regulatory framework is in place.
- In **HONDURAS**, which recently established a national water and sanitation council (Consejo Nacional de Agua Potable y Saneamiento, or CONASA), PPIAF is supporting the design of a national sector plan encouraging private participation in municipal water supply and sanitation. The aim is to enable CONASA to decentralize the provision of water and sanitation services by involving small and medium-size enterprises. PPIAF support includes technical advice on designing the national plan and on developing strategic and training tools to involve such enterprises by generating consensus among all stakeholders.
- In **DOMINICA** PPIAF is supporting amendment of the Electricity Act to enable the government to streamline its licensing procedures, and to spur private participation in the sector. The activity seeks to upgrade the legal framework by incorporating global best practices in electricity licensing and to increase the government's flexibility in withdrawing and revoking licenses on the basis of objective criteria. In addition, following up on an earlier study on electricity sector reforms, PPIAF is formulating a new tariff structure and utility benchmarking framework and advising on communications and legal issues.



*Box 2.1**Improving Cross-Border Telecommunications Connectivity in West Africa*

In West Africa, as in most places, growing numbers of people are using voice and Internet telecommunications. But because the region has no direct telecommunications links between its countries, the expanding voice and Internet traffic is routed outside the region, transiting through third countries. That sharply raises the cost of telecommunications, limiting access mostly to the wealthy few who can afford the exorbitant rates. Mobile telecommunications is similarly cramped, because the lack of cross-border regional connectivity restricts regional roaming. The poor connectivity has important implications: good fixed and mobile networks could have a tremendous development impact throughout Africa, boosting productivity and increasing poor people's access to services that can improve their standard of living.

The Economic Community of West African States (ECOWAS) has long recognized the importance of regional cooperation and economic integration to address common problems, and in 2002 its secretariat—supported by PPIAF and other donors such as the World Bank—initiated work aimed at harmonizing telecommunications sector policies among its 15 member countries. The ultimate goal was to establish a telecommunications common market in West Africa. An initial study, funded by PPIAF, provided broad guidance on decentralized harmonization within separate jurisdictions as a first step in addressing connectivity gaps. After extensive consultations, the ECOWAS secretariat chose to undertake a series of activities to harmonize telecommunications regulations in the region and involve market forces in increasing connectivity between member countries.

Building on that first study, PPIAF is now assisting ECOWAS in assessing issues relating to cross-border connectivity for fixed, mobile, and Internet services; in devising approaches to addressing connectivity gaps already identified; and in developing mechanisms for involving the private sector in service provision. The task includes measuring demand for cross-border infrastructure in West Africa and assessing key policy, legal, regulatory, commercial, and technical constraints to cross-border connectivity. Based on the findings and recommendations that are developed, a workshop for private and public telecommunications providers will be held to assess how best to remove the impediments to regional roaming and connectivity. The activity is expected to culminate in an ECOWAS joint policy statement urging member governments to develop a “one-stop shop” licensing procedure at the regional level and to take other measures aimed at removing barriers to cross-border traffic throughout West Africa.

*Box 2.2**Reviewing the Structure of the Power Sector in East Timor*

The world's newest country, East Timor, is seeking to improve its basic infrastructure while also addressing poverty and increasing poor people's access to services. Today only 21 percent of its households—and only 5 percent of its rural households—have access to electricity. The government is committed to improving power supply throughout the country—but especially in rural areas, to help increase economic opportunities. Toward that end it has recently undertaken legal and regulatory reforms to engage private investors in the sector and to replace expensive imported fuel with cheaper domestic energy sources. And it has formulated a 20-year plan for the sector that establishes the basis for developing the country's generation, transmission, distribution, and rural electrification systems under different demand scenarios.

To support the long-term planning for the electricity sector, PPIAF is assisting the government in conducting a review of the sector that builds on existing data and identifies the best options for achieving efficient development through a partnership of public, private, and community participants. The PPIAF assistance focuses on designing an institutional framework for rural electrification that will encourage private investment and exploring the feasibility of developing a fund for rural electrification.

- In *BRAZIL* PPIAF is assisting the Ministry of Mines and Energy in reviewing and reforming the power industry structure and market design to ensure sustainable supply, an activity that includes considering new power pool arrangements, optimizing the natural gas infrastructure, and reassessing the role of the electricity regulatory agency. Another PPIAF-funded activity is supporting the development of an information system to track the regulation of road and rail concessions in the country. This activity involves developing a regulatory accounting model that will aid in determining tariffs, valuing operational assets, and managing contracts. PPIAF also is funding an evaluation of the country's regulatory institutions and their impact across all infrastructure sectors. A landmark study is developing a weighted index for scoring regulatory agencies on a range of factors—from clarity of roles and objectives to autonomy, transparency, accountability, and staff qualifications—that will provide an overall assessment of regulatory governance. The evaluation model may provide useful insight into regulatory impact in many developing countries that are rapidly establishing new regulatory frameworks in infrastructure.
- In *INDIA*, for the state government of Tamil Nadu, PPIAF is supporting the preparation of a policy framework aimed at enhancing private participation in public service delivery. Designed to support public-private partnerships across all infrastructure sectors, this activity will produce legislative and policy guidelines as well as recommendations on suitable institutional arrangements and capacity building.



### Box 2.3

#### *Preparing a National Power Policy and Rural Electrification Framework in Cambodia*

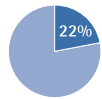
Three decades of civil war in Cambodia largely destroyed the country's infrastructure. The effects are clear in the electricity sector: in 2002 less than 13 percent of households were connected to the power grid. To restructure the sector, the government chose to introduce competition and private investment, particularly in rural areas, where the situation is more critical. To support this effort, PPIAF helped the government formulate a comprehensive power sector policy that envisages a direct role for private companies. It also provided guidance on developing a framework and contractual tools for involving private companies in generation, distribution, and rural electrification.

The PPIAF-funded activity generated model contractual documents to make it easier for the government to select private operators and investors interested in participating in the power sector, including documents for large-scale generation projects and power purchase, fuel supply, and land lease agreements. It also produced guidelines for different contractual situations—including power procurement for small- and large-scale generation projects—and model requests for proposals and instructions to bidders.

PPIAF also assisted the government in developing incentives to improve the efficiency of rural electricity enterprises, more than 600 of which now operate informally in Cambodia. The activity helped design a licensing program for these enterprises, including a model consolidated license, and a new regulatory regime for the licensed enterprises that will be implemented gradually. The regulatory regime is designed to encourage the enterprises to stay in the energy business, improve their infrastructure, and invest in learning new technical, business, and customer service skills.

## 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 14 activities to support the development of such strategies in fiscal 2004, including analytical studies on the options for and potential benefits of private involvement.



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.

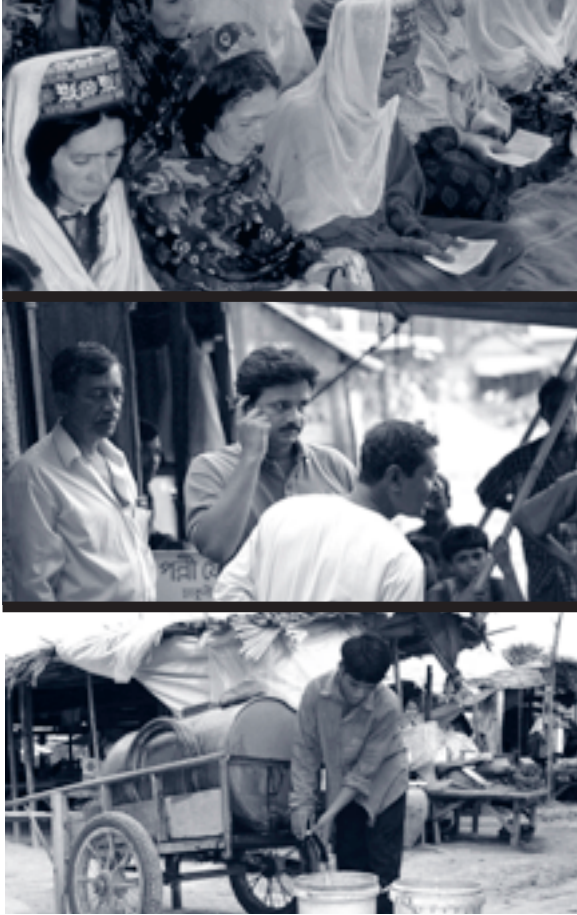
In fiscal 2004 work was under way on Country Framework Reports for Angola, Gabon, Rwanda, and Senegal and completed on a report for Lesotho. Since fiscal 2000 such reports have also been completed for Bangladesh, Cambodia, Honduras, India, Mexico, the Philippines, Uganda, and Vietnam.

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 2004 range from assisting the Kenya Airports Authority in developing appropriate privatization strategies to enabling the government of Mongolia to devise strategies for improving rural access to telecommunications. The activities include these:

- In *ZAMBIA* PPIAF is helping the government devise a decentralized strategy for solid waste management that makes effective use of public

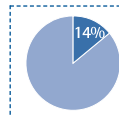
sector resources and systematically involves communities, local governments, and the private sector. This activity includes reviewing practices and lessons in solid waste management nationally to provide input into the strategy.

- In *GABON* PPIAF is assisting the government in formulating a cohesive multisector infrastructure regulation strategy aimed at enhancing private participation. Centered on an Infrastructure Framework Report, this activity is designed to support the government's efforts to reform public enterprises and devise practical means to establish a business-friendly legal, regulatory, and institutional environment in key infrastructure sectors.
- In *DJIBOUTI* a PPIAF-funded study is assessing options and developing institutional strategies for providing water, sanitation, and electricity services. The study will propose a least-cost private sector option for service provision and an appropriate legal and regulatory framework to support it.
- In the *LAO PEOPLE'S DEMOCRATIC REPUBLIC* PPIAF is supporting pilot efforts to involve local private operators in water supply in small towns. Studies assessed willingness to pay, evaluated technical design and the legal, regulatory, and financial framework, and prepared transactional documents. The pilot efforts are expected to serve as a training resource for small and medium-size towns across the country.
- In the *PHILIPPINES* PPIAF is supporting a review of public-private partnership efforts in infrastructure as a follow-up to the Country Framework Report. Building on that report's recommendations, this activity will support the government in monitoring the legal and regulatory environment, provide an in-depth review of selected activities involving public-private partnerships, and ensure that their impact on poverty is measured. Another PPIAF-funded activity is assisting the government in devising innovative solutions for solid waste management that involve imposing user fees on waste-generating entities, as permitted under the Solid Waste Management Act of 2001. A study will analyze rate structures and fee collection mechanisms locally and in other developing countries, evaluate the capacity of local governments to implement user fees, and assess willingness to pay.



- In **INDONESIA** PPIAF is helping the government improve its ability to involve and partner with informal, small-scale water providers in urban areas. This activity, through quantitative and qualitative analysis, is supporting the development of a framework for urban water service delivery by such providers.
- In **GUATEMALA** PPIAF is assisting the government in formulating a comprehensive strategy for fostering private participation in telecommunications in rural and periurban areas. The aim is to design a sustainable output-based scheme that will improve service to the rural poor.
- In **LATIN AMERICA AND THE CARIBBEAN** PPIAF is supporting efforts by Regulate!—the Latin American Telecommunications Regulators Forum—to develop and implement effective, targeted, and sustainable programs for providing universal access in rural and low-income areas in all 19 member countries. This landmark initiative will identify best practices and an analytical framework for universal access, survey universal access programs in Latin America, and develop a market efficiency methodology for determining the difference between current and potential service levels and thus revealing the “access gaps.”

## 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 (boxes 2.4 and 2.5). In fiscal 2004 it financed nine such activities, including these:

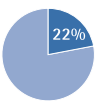
- In **NIGERIA** PPIAF supported a two-day forum on private participation in infrastructure development in the country that focused on power and transport. The forum brought together all the key stakeholders in these two sectors to network, share technical information, and develop an action plan for attracting private investment in power and transport in Nigeria.
- In **CENTRAL ASIA** PPIAF is facilitating dialogue among the region’s national regulators, policymakers, and government officials about the challenges they face in electricity regulation. This activity is expected to lay the groundwork for establishing the Central Asia Regulators Forum and produce strategies for promoting the exchange of experience and information among regulators in the region.



A small, landlocked Central African country of 8.5 million people, Rwanda has one of the world's lowest income levels. Its GDP per capita is \$220, well below the Sub-Saharan average of \$470. The country lost more than 12 percent of its population in a civil war in the early 1990s, and today about a third of Rwandan households are headed by women, mostly widows. As the government strives to restructure the economy, one of its main goals is to increase the participation of private and international investors and operators in the provision of basic services. By February 2002 the government had privatized 41 state enterprises, mostly in agriculture, and it plans to privatize or heavily involve the private sector in the water and power sectors.

To gauge the level of interest in investing in Rwanda's infrastructure, the government, with support from PPIAF, is gathering together donors and high-profile private investors at an infrastructure financing conference. Planned for November 2004 in Kigali, the conference is expected to attract more than 150 participants from government agencies, private companies, and civil and community organizations interested in supporting the government's infrastructure development goals. The government will present its development goals and strategies, outline the findings and recommendations of the PPIAF-funded Country Framework Report, and seek commitments from donors and the private sector on implementing those recommendations. Discussions are expected to develop consensus around some options for private participation that merge the government's priorities with the private investment community's interest in supporting Rwanda's infrastructure and economic development.

### 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 14 activities in fiscal 2004 whose primary focus was capacity building. Some of these were regional, such as the support to the African Forum for Utility Regulation (box 2.6). Others were national, ranging from providing technical assistance to help the Tajikistan Ministry of Energy in regulating the Pamir Private Power Project to strengthening the technical capacity of members of Kenya's Water Services Regulatory Board (box 2.7):

- In *NIGER* a PPIAF-funded activity is supporting the new multisector regulatory agency by developing an economic and financial model for determining tariffs in water and electricity projects and training agency staff in its application. The aim is to provide the agency with the conceptual and technical tools and framework for transparent decisionmaking.
- In *TANZANIA* and *ZAMBIA* PPIAF supported the governments' privatization efforts by building basic capacity in their infrastructure ministries. The activity included creating an information base and developing awareness of key concepts and modes of public-private partnership in infrastructure in the two countries.
- In the *LAO PEOPLE'S DEMOCRATIC REPUBLIC* PPIAF is funding technical assistance to promote discussions on institutional and regulatory options for private participation in transport services. Following a diagnostic review of existing institutional and regulatory arrangements, the activity will work to build consensus among policymakers on appropriate new institutions for the freight and passenger transport subsectors and on ways to build capacity in those institutions.

## Box 2.5

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

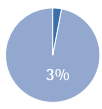
Constraints on access to power and especially water have hampered social and economic development in the Middle East and North Africa. In 2003 PPIAF sponsored a two-day workshop in Lebanon to look at the critical financing and policy needs in the region's power and water sectors and explore means of better involving the private sector in service delivery in these sectors. The workshop, developed in coordination with the European Union and the World Bank, brought together 150 participants from government agencies, private companies, and the donor community. The success of this initial effort led to a demand for greater dialogue and coordination among countries in the region on sustainable provision of water and power supply.

PPIAF therefore supported a follow-up roundtable in Marrakech in May 2004 to discuss issues of accountability in the delivery of water and power services. This event brought together more than 80 stakeholders from countries in the Middle East and North Africa, representing government agencies, private companies, and community organizations involved in public service delivery. Participants came to recognize that not only objectives but also risks, incentives, and constraints play a part in determining accountability in delivering services. Some noted that a lack of qualified staff, of appropriate legal and regulatory frameworks, and of reasonable tariff structures and cost recovery schemes are all factors that, to varying degrees, prevent utilities from being accountable for delivering services that are reasonably priced and satisfactory to the users.

- In *ARMENIA* PPIAF is supporting efforts to strengthen the institutional capacity of the newly established Public Services Regulatory Commission. The aim is to enable the agency to develop and pilot a public outreach program, design a mechanism for monitoring the quality of service, and provide training for its staff on legal and regulatory issues in the water and telecommunications sectors.
- In *GEORGIA* a PPIAF-funded activity is working with the Georgia National Energy Regulatory Commission to develop to international standards its capacity in a range of regulatory tasks, including setting tariffs and disseminating information to consumers and ratepayers. The activity will also harmonize laws and regulations governing the energy sector in Georgia.



### 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 2004 PPIAF funded two activities designed to facilitate unique, first-time transactions. In Bangladesh PPIAF is providing technical assistance to the Ministry of Energy and Mineral Resources in awarding concessions to private operators to build

and operate electricity generation, transmission, and distribution systems on Kutubdia Island (box 2.8). And in India PPIAF is assisting the municipality of Mumbai in preparing for a transaction to involve the private sector in water supply in selected periurban areas. The PPIAF-funded activity involves designing the transaction, preparing contractual documents, and providing technical guidance in evaluating bids. The pilot transaction is expected to provide a model for private participation in water in other periurban areas of Mumbai as well as in other megacities—in India and elsewhere.



#### Box 2.6

#### Continuing Support to the African Forum for Utility Regulation

The African Forum for Utility Regulation (AFUR) is a voluntary association of utility regulators in Africa whose mission is to support and facilitate the development of effective regulation in African countries. Launched in Pretoria, South Africa, in November 2002, AFUR focuses primarily on issues relating to the regulation of energy, telecommunications, and water and sanitation. PPIAF supported the launch of AFUR by providing technical assistance in formalizing its constitution and developing its first business plan.

In October 2003 PPIAF supported AFUR's first annual meeting, in Yaoundé, Cameroon. At this landmark meeting, attended by representatives of more than 30 entities involved in utility regulation in Africa, AFUR reaffirmed its strategic objectives, reviewed emerging global best practices in regulation, and achieved consensus on a proposed utility regulation framework for AFUR members.

Discussions at the annual meeting were informed by the results of a 2002 survey of regulatory governance, undertaken by AFUR with PPIAF assistance, that drew on the experience of all AFUR members. The results made an important distinction between the factors critical for effective external governance and those essential for good internal governance. The findings on external governance highlighted the need to root regulation in primary legislation, view independence as a long-term goal, ensure transparency and openness in hearings and decisionmaking, create an appropriate appellate process, and balance regulatory discretion with steps to build investor confidence in the proper use of that discretion. The findings on internal governance emphasized the need to define clearly distinct roles for the executive branch and the regulatory agency and build firewalls between them, recruit regulatory staff with integrity and appropriate qualifications, and adopt the rigorous auditing and procurement practices in regulatory agencies that together contribute to good regulatory governance.

## Box 2.7

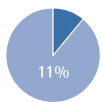
*Strengthening the Water Services  
Regulatory Board in Kenya*

Kenya recently restructured its water sector, harmonizing institutional roles and service jurisdictions to improve the quality and coverage of services. Key measures in the restructuring were separating water resource management from water supply and delegating responsibility for providing service to a variety of entities, both public and private.

The government's new water sector policy is laid out in the Water Act of 2002 and the National Strategy on Water and Sanitation Services of 2003. The Water Act established seven water service boards to provide water and sanitation services either directly or through arrangements with a range of providers, including local authorities, private companies, vendors, and community organizations. It also established a regulator, the Water Services Regulatory Board, to oversee all these arrangements.

To do their job, those appointed to the new regulatory board first needed training. PPIAF therefore funded a two-day workshop aimed at helping the board members develop a deeper understanding of their regulatory functions and identify the agency's immediate priorities. The workshop, held in Nairobi, was attended by key officials of the Ministry of Water Development as well as members of the regulatory board. A diverse group of experts in water sector regulation and restructuring—from regulatory agencies in Ghana, Jamaica, Mozambique, the United Kingdom, and Zambia—shared their knowledge and insights.

The workshop not only enabled the new regulators to improve their understanding of their functions and identify their capacity building needs. It also provided them a supportive environment for brainstorming on the key elements of their strategic plan—on the regulatory models and procedures they will need to develop for issuing licenses, on the tariff setting methodologies they will need to adopt, and on quality and performance standards they will need to consider.

*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 2004 it supported seven activities focusing on emerging best practices.

Toolkits are a key product supported by 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 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>). Work was under way in fiscal 2004 on a new toolkit aimed at helping governments design market-based approaches to urban transport (box 2.9).



*Box 2.8**Developing a Remote Area Power Supply System in Bangladesh*

Bangladesh is one of the world's poorest countries, with more than half its 135 million people living below the poverty line. Magnifying the challenges of poverty is a population density among the highest in the world—roughly 800 people per square kilometer. Some 80 percent of Bangladeshis live in rural areas, often without basic infrastructure services.

The government is committed to improving access to electricity in rural areas because of the enormous benefits that can have for the quality of people's lives—not only through greater economic opportunities but also through big gains in basic health and education. To test the possibility that small, privately owned power distribution systems could serve rural customers, the government recently initiated a project to develop remote area power supply systems. As part of this, a pilot effort will interconnect the remote island of Kutubdia to substations on the mainland. If this pilot succeeds, other remote islands and areas will probably also be connected to small generating stations.

Though technically possible, remote and rural electrification is very costly and often unsustainable through traditional, tariff-based cost recovery. So the government has created a fund to subsidize the capital costs of generation and distribution in remote areas and the costs of making connections to homes and small enterprises.

PPIAF is supporting the Kutubdia pilot project through assistance in preparing a feasibility study and all the documents involved in bidding and awarding the contract. This effort includes designing an appropriate contractual framework and risk sharing arrangement between the government and the private concessionaire. PPIAF will also advise the government on the prequalification and bid evaluation processes and assist in preparing and finalizing the concession agreement. The PPIAF assistance will help ensure that the government is well positioned to select a suitable concessionaire for this pioneering effort.

*Box 2.9**Providing a Toolkit on Market-Based Approaches in Bus Service Provision*

In most developing countries poor people, especially those in urban areas, rely almost exclusively on public transport, and their livelihoods often depend on their ability to commute to work affordably. So improving poor people's access to affordable transport could help reduce poverty across the developing world. But can governments alone meet the growing demand for public transport? Or are there ways to involve the private sector in providing transport that can meet not only the needs of those able to pay higher rates but also the needs of the urban poor?

As governments and development partners wrestle with the issues of sustainable private participation in transport, policymakers face enormous gaps in information and analysis. To help close those gaps, PPIAF is supporting the development of a hands-on analytical framework—a toolkit—to enable national and urban policymakers to devise a market-based approach to the provision of bus transport services. This multimedia toolkit will help policymakers develop contracting and regulatory procedures and design institutional and financing options.

The toolkit will feature case studies of experience with private participation in bus transport; suggest legal, regulatory, and institutional arrangements for a market-based approach; and clarify the public sector's new role as policymaker, contract monitor, and regulator rather than as service provider. It will draw on the experience of global alliances and networks engaged in improving the livability of urban centers in developing countries, including the Cities Alliance, the Sub-Saharan Africa Transport Policy Program, and the International Association of Public Transport.

Another activity in fiscal 2004 with a global focus looked at the role of nontraditional investors in infrastructure (box 2.10). Others had a regional focus:

- In *AFRICA* PPIAF is supporting a flagship conference aimed at fostering an understanding of the relationship between private participation in infrastructure, economic growth policies, and poor people in the region. Intended for policymakers, knowledge institutions, development partners, the private sector, and nongovernmental and community organizations, the conference is designed to strengthen the pro-poor reform agenda throughout Africa and ensure that private participation in Africa's infrastructure helps improve the lives and opportunities of the poor.
- In *EAST ASIA* PPIAF is financing a flagship study reviewing the experiences, challenges, and opportunities of private participation in infrastructure in the region. The study will identify structures for infrastructure finance in East Asia and review the roles of public and private participants in service provision. The aim is to contribute to the policies of governments in the region as well as those of key donor agencies such as the Asian Development Bank and the World Bank.



#### Box 2.10

#### *Exploring the Role of Nontraditional Investors in Public-Private Infrastructure*

The trend of infrastructure privatization in developing countries peaked in 1997 and has since declined sharply. By 2001 investment flows to infrastructure projects with private participation had fallen to 44 percent of the peak, and by 2003 they had receded to 1994 levels. Several factors contributed to the reversal, including failed renegotiations of several large, high-profile projects, foreign investors' perceptions of political and exchange rate risks, and the political difficulties in adjusting tariffs to achieve cost recovery.

With dependence on foreign investment a continuing problem, developing countries and donors are exploring alternatives that rely on local and regional investors and domestic capital markets. PPIAF is funding an activity to expand knowledge on the potential role of local and regional investors in the infrastructure of developing countries. The study is investigating the scale of local investors, the types of policies and business environments they need to thrive, and their comparative advantage over traditional international operators, particularly in areas relating to the political economy of the infrastructure sector.

The study began with an analysis of the World Bank's Private Participation in Infrastructure (PPI) Project Database to assess the global scale and depth of local investment in infrastructure projects. It is developing a smaller database focusing on local investment in infrastructure in developing countries. And it is conducting several case studies to fully analyze what factors govern the success of local investment and what is needed to encourage it. The results are likely to reveal gaps in information on participation in infrastructure by local companies and may point to a need for more in-depth reviews of situations in the field. The findings will be used to develop a strategy and methodology to assist developing countries in promoting local investment in infrastructure through targeted policies, reforms, and incentives.



## Section 3



## Governance Structure

PPIAF is governed by a Program Council made up of representatives of contributing donors (figure 3.1). PPIAF remains open to receiving contributions from official donors, international financial institutions, and other official agencies. An independent Technical Advisory Panel of leading international experts in different aspects of private provision of infrastructure supports the Program Council. A Program Management Unit manages PPIAF in accordance with a general strategy 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.

### 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, 2004, there were 13 members (table 3.1). Members may also contribute to Non-Core Funds, whose use is restricted to particular themes, regions, or activities.

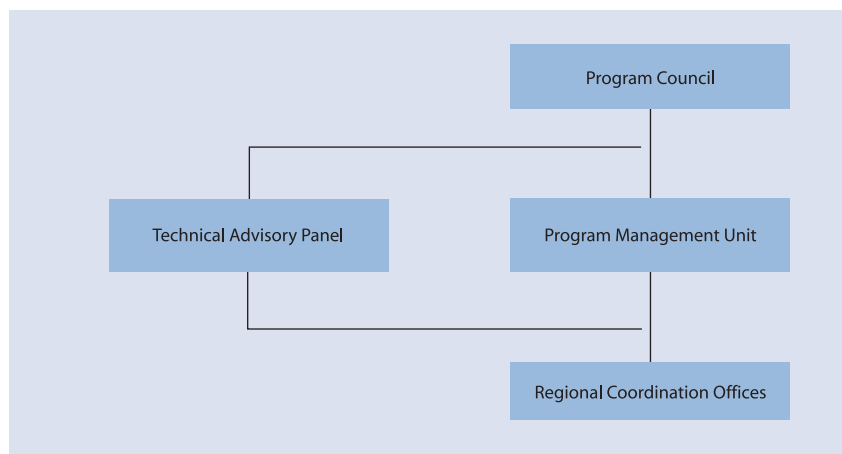
The Program Council meets once a year to review the strategic direction of the PPIAF program, its achievements, and its financing requirements. Chaired by the World Bank's vice president for infrastructure, the Program Council is responsible for:

- 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 13–14, 2004, the Program Council held its fifth annual meeting since PPIAF was launched in July 1999. The Swedish International Development Cooperation Agency (SIDA) hosted the meeting in Stockholm on behalf of the government of Sweden. At the meeting the staff of the Program Management Unit presented an overview of program operations, representatives of the governments of Brazil, Georgia, and Malawi reported on the impact of PPIAF activities in their country, and the Technical Advisory Panel presented its ex post evaluation of selected activities and its assessment of the overall performance of the PPIAF program.

At the meeting the Program Council agreed to commission an independent strategic review of PPIAF's first five years of operations. This strategic review was designed to assist the donors, which will be considering a renewal of their financial commitments to PPIAF. The strategic review addressed four major issues:

*Organizational Structure of PPIAF*



*Figure 3.1*



- Is the PPIAF program still relevant to helping to improve infrastructure in developing countries?
- Has PPIAF been successful in achieving significant results?
- Has PPIAF been operated efficiently and effectively?
- Has PPIAF identified and applied the lessons of its experience?

The initial results of this review indicate that PPIAF remains relevant and continues to play an important role in assisting governments in addressing the “unfinished” business in private participation in infrastructure. In addition, PPIAF has demonstrated an overall comparative advantage as an advisory facility with its clear and coherent functional focus, broad range of deliverables, global reach, strong donor support, and cost-effective management structure. The strategic review will be discussed at the May 2005 donors’ meeting.

Preceding the annual meeting was a workshop organized to allow participants to explore current themes relating to the private provision of infrastructure. The workshop focused on emerging lessons from the experience with private participation in infrastructure and the role of nontraditional operators in public-private partnerships in infrastructure. Nemat Shafik, vice president for infrastructure at the World Bank and chairperson of PPIAF’s Program Council, gave opening remarks, introduced the guest speakers, and chaired both sessions.

Workshop participants noted the primary importance of an appropriate regulatory framework, adequate protection of low-income groups, and careful monitoring of the distribution of benefits from privatization for sustaining the momentum gained in private investment in infrastructure in the mid-1990s. The government representatives from Brazil, Georgia, and Malawi shared their insights on these issues.

Table 3.1

Members of the PPIAF Program Council as of June 30, 2004

#### Bilateral

Canada (Canadian International Development Agency)  
 France (Ministry of Foreign Affairs)  
 Germany (Bundesministerium für Wirtschaftliche Zusammenarbeit und Entwicklung, or BMZ)  
 Italy (Ministry of Foreign Affairs)  
 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)  
 United States (U.S. Agency for International Development)

#### Multilateral

Asian Development Bank  
 World Bank  
 United Nations Development Programme



## 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.
- Seminar on Private Involvement in Infrastructure Using Concession Contracts (Algeria).
  - Review of Concession Contracts (Argentina).
  - Strengthening the Regulatory Framework for New Gas Distribution Networks (Bulgaria).
  - Water and Sewerage Regulatory Framework (Bulgaria).

The panel met twice in fiscal 2004, holding its seventh meeting in Washington, D.C., on November 25, 2003, and its eighth meeting in Stockholm on May 13, 2004. Panel members also participated in the Program Council's fifth annual meeting, also held in Stockholm in May 2004.

In fiscal 2004 the Technical Advisory Panel conducted an ex post evaluation of 18 PPIAF activities selected to reflect the work program's diversity in regions, sectors, types of activities, level of funding, and ease of replication (box 3.1):

### Box 3.1

#### *Assessing the Past—and Looking Ahead*

At the Program Council's fifth annual meeting the Technical Advisory Panel presented the results of its fourth ex post evaluation, covering 18 activities, and provided inputs into the fiscal 2005 Indicative Work Program presented by the Program Management Unit. The 18 activities represent about a third of the fiscal 2003 activities eligible for evaluation. Thematic reviews focused on the causes of the continuing controversies over private infrastructure and their implications for the activities of PPIAF.

The panel's evaluation highlighted PPIAF's key strengths, recognizing the high quality of its diagnostic work and the significant contribution of its products in preparing policymakers to better understand the risks, benefits, and key issues involved in strategies and reforms for private participation in infrastructure. The panel also commended PPIAF's ability to mobilize resources quickly to support timely interventions within a limited window of opportunity. It further noted that PPIAF had effectively leveraged limited technical assistance across regions by pooling transborder resources and applying lessons learned.

The panel noted that, in retrospect, the difficulties of privatization were severely underestimated: the challenges were not only technical but also political. The panel therefore advised that PPIAF consider giving more attention to the distributional and political dimensions of privatization and regulation. That would probably mean giving greater attention in country framework and sector reports to analyzing who will gain and who will lose from privatization, and providing deeper analysis of the process and transparency in negotiations for lease and concession contracts. Also warranted is greater attention in the analysis of appropriate regulation to reducing the risk of incomplete contracts or improving statutory regulation to ensure that decisions are more transparent, less discretionary, and thus credible to all parties even in controversial circumstances.

The panel encouraged PPIAF to consider alternative forms of private involvement in infrastructure, including flexible, innovative means of private delivery of public services. Finally, it urged PPIAF to be mindful of the importance of developing capital markets and, in this vast area, to select a niche where it can maximize the value of its funding. Among possible niches are analyzing the potential of local capital markets and developing local funding sources, such as pension funds, that can capture and harness domestic savings for local infrastructure projects.

- Country Framework Report (Cambodia).
- Output-Based Aid in Water Supply (Cambodia).
- Regulatory Framework for Natural Gas Reform (China).
- Options for Private Sector Participation in Infrastructure (West Bengal, India).
- High-Level Conference on Private Sector Participation in Infrastructure (Kenya).
- Institutional Arrangements for the Water Sector (Nepal).
- Strategic Options for the Public Water Utility, Corposana (Paraguay).
- Assisting Contract Negotiations for the Phu My 2-2 Build-Operate-Transfer Power Project (Vietnam).
- African Infrastructure Development Company—DEVCO (Africa regional).
- Financing of Private Infrastructure in Africa: A New Approach (Africa regional).
- Prefeasibility Study for an Asia Private Infrastructure Financing Facility—AsPIFF (Asia regional).
- South Asia Forum for Infrastructure Regulation, Phase II (South Asia regional).
- Impact of Privatization on Labor: Experience of Three Developing Countries (global).
- Labor Toolkit for Private Participation in Infrastructure (global).

## 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 2004 and 2005 Indicative Work Programs).

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 new field-based Regional Coordination Offices—in New Delhi (India) to cover South Asia, in Bangkok (Thailand) to replace the Singapore office and to cover East Asia and Pacific, and in Dakar (Senegal) to cover West Africa. 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 PPIAF's 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, 2004, donors contributed a total of \$92 million to PPIAF, including nearly \$1.6 million of net investment income (table 4.1). These donors include the present 13 members of the Program Council. In addition, the European Commission has signaled its intention to come on board as a new donor in fiscal 2005.

**Table 4.1** Member Contributions to PPIAF: Confirmed Receipts as of June 30, 2004 (US\$ thousands)

SUMMARY		
Type of funding		Receipts
Core		62,594
Non-Core		28,071
Net investment income <sup>a</sup>		1,552
<b>Total funding</b>		<b>92,217</b>
CORE FUNDING		
Member	Duration <sup>b</sup>	Receipts
Asian Development Bank	January 2001–December 2003	750 <sup>c</sup>
Canada	July 1999–June 2004	1,310
France	July 2000–June 2004	1,016
Germany	January 2001–December 2004	1,058
Italy	July 2003–June 2004	250
Japan	July 1999–June 2003	7,435 <sup>d</sup>
Netherlands	July 2001–June 2004	1,500
Norway	July 1999–June 2004	1,650
Sweden	July 2000–June 2004	1,149
Switzerland	July 1999–June 2005	3,173
United Kingdom	July 1999–June 2004	29,875
United States	July 2003–June 2004	500
World Bank	July 1999–June 2004	12,930
<b>Total Core funding</b>		<b>62,594</b>
NON-CORE FUNDING		
Member	Duration <sup>b</sup>	Receipts
Japan	March 2001–June 2003	2,608 <sup>e</sup>
Sweden	July 2002–June 2005	4,746 <sup>f</sup>
Switzerland	July 1999–June 2005	3,082 <sup>g</sup>
United Kingdom	July 1999–June 2003	17,635 <sup>h</sup>
<b>Total Non-Core funding</b>		<b>28,071</b>

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. The amount here supersedes earlier references to net investment income in other reports.

b. 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. Targeted to countries in East Asia.

f. Targeted to countries in Sub-Saharan Africa.

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

h. 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 2004 (July 1, 2003, to June 30, 2004) total expenditures amounted to \$15.6 million (table 4.2). Of this amount, \$13.5 million went to program activities,

reflecting an increase of 12.2 percent from the \$12.1 million in fiscal 2003 (table 4.3). Meanwhile, expenditures of the Program Management Unit declined as a result of staffing changes, causing no reduction in program activities (table 4.4). Expenditures of the Regional Coordination Offices also fell slightly, from \$0.95 million to \$0.83 million, as a result of departure of staff from the Singapore office.

**Table 4.2** PPIAF Expenditures for Program Activities and Administration, Fiscal 2004 (US\$ thousands)

Expense category	Expenditures
Program activities	13,534
Program Management Unit	1,252
Regional Coordination Offices	827
<b>Total</b>	<b>15,613</b>

**Table 4.3** PPIAF Program Activity Expenditures, Fiscal 2004 (US\$ thousands)

Expense category	Expenditures
Consultant fees and contractual services	11,420
Travel	914
Staff costs	1,147
Other expenses	53
<b>Total operational and overhead expenses</b>	<b>13,534</b>

**Table 4.4** PPIAF Program Management Unit and Regional Coordination Office Expenditures, Fiscal 2004 (US\$ thousands)

Expense category	Expenditures
Program Management Unit core administration <sup>a</sup>	966
Technical assessments of activities <sup>b</sup>	16
Consultant fees and contractual services <sup>c</sup>	74
Travel <sup>d</sup>	120
Other expenses <sup>e</sup>	76
Regional Coordination Offices <sup>f</sup>	827
<b>Total operational and overhead expenses</b>	<b>2,079</b>

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.

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 \$92 million, \$74.2 million has been allocated to activities, and slightly more than \$11 million to Program Management Unit and Regional Coordination Office funds, since fiscal 2000. The remaining available cash of \$7.0 million includes \$1.45 million in pledges received in

advance—a fiscal 2005 Core pledge from Switzerland and a fiscal 2005 Non-Core pledge from Sweden (table 4.5). Of the total available funds of \$5.6 million, \$4.3 million is allocated for Core activities and \$1.2 million for Non-Core activities. This available cash will allow PPIAF to commit funds for activities in the first quarter of fiscal 2005.

**Table 4.5** PPIAF Uses of Funds as of June 30, 2004 (US\$ thousands)

Receipts	92,217
Less approved activities	74,166 <sup>a</sup>
Less Program Management Unit and Regional Coordination Office funds	11,048
<b>Subtotal: available cash</b>	<b>7,003</b>
Less funds received in advance	1,452
<b>Total available funds</b>	<b>5,551</b>

a. Excludes \$1.9 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 pro-

gram 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.









## Annex 1



# Approved PPIAF Activities for Fiscal 2004

Activity	Description of activity	Target completion date	Funding approved (US\$)	Deliverable	Type of funding
<b>SUB-SAHARAN AFRICA</b>					
Botswana: Establishment of a Multisector Utility Regulator	Advising on appropriate regulatory reforms for key infrastructure sectors to facilitate the divestiture of state-owned utilities for greater efficiency and service coverage.	4/30/05	360,000	Policy, regulatory, and institutional reforms	Non-Core
Democratic Republic of Congo: Infrastructure Development and Private Sector Participation Workshops	Building consensus among key political decisionmakers and private sector representatives on an optimal strategy for increasing national competitiveness and identifying the means to implement the strategy.	11/30/04	118,000	Consensus building	Core
Gabon: Infrastructure Framework Report	Assessing the country's economic, legal, regulatory, and institutional environment in such infrastructure sectors as power, telecommunications, postal services, water and sanitation, and air and rail transport.	2/25/05	330,500	Infrastructure development strategies	Non-Core
Kenya: Privatization Strategy Development for the Management of Kenyan Airports	Assisting the Kenya Airports Authority in developing an appropriate strategy for privatizing airport management.	6/30/05	327,490	Infrastructure development strategies	Non-Core
Kenya: Training Workshop for Members of the Water Services Regulatory Board	Conducted a workshop for members of the newly established Water Services Regulatory Board on issues and challenges facing private participation in the water sector.	Completed	74,000	Capacity building	Non-Core
Lesotho: Conference on the Country Framework Report	Conducting a conference to develop appropriate strategies for improving and expanding key infrastructure services based on the findings of the PPIAF-funded Country Framework Report.	10/22/04	60,000	Consensus building	Core
Niger: Economic and Financial Models for Use by the Multisector Regulator	Formulating an appropriate methodology for regulation and designing a transaction model for introducing private participation in water and electricity.	7/16/05	274,600	Capacity building	Core
Nigeria: Private Sector Participation in Infrastructure Development in Nigeria	Conducted an interdisciplinary forum, "Private Sector Participation in Infrastructure Development in Nigeria," focusing on appropriate legal, regulatory, and institutional reforms in key infrastructure sectors.	Completed	51,056	Consensus building	Core
Rwanda: Conference on Investment Financing for Basic and Critical Infrastructure	Conducting a conference involving the president's office, key infrastructure ministries and agencies, development partners, private operators, investors, and civil society to generate private investment in infrastructure following completion of Rwanda's Country Framework Report.	12/31/04	68,000	Consensus building	Core

Activity	Description of activity	Target completion date	Funding approved (US\$)	Deliverable	Type of funding
<b>SUB-SAHARAN AFRICA</b>					
Tanzania and Zambia: Seminars on Public-Private Partnership Arrangements for Infrastructure Development	Training key government officials from Tanzania and Zambia to help create awareness of and build capacity in techniques and modes of public-private partnership applicable to each country's infrastructure sectors.	10/29/04	73,400	Capacity building	Core
Zambia: Private Sector Participation Strategy for Solid Waste Management	Assessing solid waste management practices in parts of the country with a view to recommending an appropriate policy framework for efficient service delivery that makes optimal use of the community, local authorities, and the private sector.	4/30/05	305,570	Infrastructure development strategies	Non-Core
Regional: African Forum for Utility Regulation—First Annual Meeting and Workshop	Supported learning and continuing education for African utility regulators at the annual meeting of the African Forum for Utility Regulation in Yaoundé, Cameroon, on October 28–29, 2003.	Completed	195,000	Capacity building	Non-Core
Regional: Conference on Private Participation in Infrastructure, Economic Growth, and the Poor in Africa	Sponsoring the PPIAF flagship conference, "Private Participation in Infrastructure, Economic Growth, and the Poor in Africa," to be held in South Africa.	10/30/04	450,000	Emerging best practices	Core
Regional: Harmonization of the Telecommunications Regulatory Framework	Assisting the secretariat of the Economic Community of West African States (ECOWAS) in its effort to harmonize telecommunications regulatory frameworks across ECOWAS member countries.	12/17/04	330,000	Policy, regulatory, and institutional reforms	Core
Regional: Training of West African Regulators	Training technical staff of targeted regulatory agencies in effectively regulating the water, electricity, and telecommunications sectors.	10/01/04	127,400	Capacity building	Core
<b>EAST ASIA AND PACIFIC</b>					
Cambodia: Meeting the Millennium Development Goals in Water and Sanitation	Assisting the government in achieving its Millennium Development Goals in water and sanitation by aiding in the implementation of its socioeconomic development plans.	12/02/04	73,300	Policy, regulatory, and institutional reforms	Core
Cambodia: Review of Telecommunications Policy Options	Advising the government on telecommunications policy options aimed at complying with conditions set by the World Trade Organization.	6/30/05	127,000	Capacity building	Core
China: Private Sector Involvement in the Delivery of Piped Water Supply Services in Rural Areas	Developing new financing and management models involving the private sector in delivering water supply services in rural China.	10/29/04	75,000	Infrastructure development strategies	Core

Activity	Description of activity	Target completion date	Funding approved (US\$)	Deliverable	Type of funding
<b>EAST ASIA AND PACIFIC</b>					
East Timor: Review of the Market Structure of the Power Sector	Preparing a study of the structure of the power market with the aim of facilitating a partnership among the public sector, the private sector, and community participants.	9/30/05	500,000	Policy, regulatory, and institutional reforms	Core
Indonesia: Capacity and Knowledge Development for Small-Scale Water Providers	Enhancing the capacity of small-scale water providers and developing knowledge on their role and characteristics with the aim of improving service delivery and advancing toward the Millennium Development Goals in safe drinking water.	8/31/05	231,100	Infrastructure development strategies	Core
Lao PDR: Options for Institutional Arrangements and Regulation for Private Sector Delivery of Transport Services	Promoting a dialogue on appropriate institutional arrangements for and regulation of transport services involving the private sector as part of a strategy for meeting economic growth and poverty reduction goals.	6/30/05	110,000	Capacity building	Core
Lao PDR: Private Sector Participation in Small-Town Water Supply	Facilitating the participation of local small and medium-size enterprises in delivering water and sanitation services in small towns.	8/31/05	400,000	Infrastructure development strategies	Core
Mongolia: Framework for Universal Access in Telecommunications	Assisting the government in designing a program to improve access to rural telecommunications through a public-private partnership.	12/31/04	263,000	Infrastructure development strategies	Core
Philippines: Meeting the Infrastructure Challenge through Public-Private Partnerships	Developing a policy and regulatory framework to strengthen public-private partnerships in infrastructure, incorporating the lessons and recommendations of the 2000 Country Framework Report for the Philippines.	3/31/05	450,000	Infrastructure development strategies	Core
Philippines: Preparation and Execution of Power Supply Agreements for Private Sector Participation in Power Generation	Supporting the government in preparing for the transfer of power supply agreements from rural electric cooperatives to independent power producers and in formulating model power supply agreements and contractual approaches.	6/30/05	75,000	Policy, regulatory, and institutional reforms	Core
Philippines: Study on Appropriate User Charges for Solid Waste Management Services	Analyzing rate structures and fee collection mechanisms in use locally and in other developing countries to assist in designing an appropriate user charge for solid waste management services.	6/30/05	450,000	Infrastructure development strategies	Core
Vanuatu: Developing a Multisector Utilities Regulatory Body	Assisting the government in strengthening the regulatory framework for the utility sectors and developing an effective multisector regulatory body.	9/30/04	227,500	Policy, regulatory, and institutional reforms	Core
Vietnam: Options for Multimodal Transport Regulation	Preparing a detailed study of regulatory options to encourage innovative solutions to challenges in the transport sector.	6/30/05	488,780	Policy, regulatory, and institutional reforms	Core

Activity	Description of activity	Target completion date	Funding approved (US\$)	Deliverable	Type of funding
<b>EAST ASIA AND PACIFIC</b>					
Regional: Conference on Strategies for Implementing Infrastructure Reform in the Region	Conducting a conference on strategies for implementing successful infrastructure reform, designed to complement such donor activities as the flagship study on infrastructure strategies for the Asia-Pacific being jointly conducted by the World Bank, Asian Development Bank, and Japan Bank for International Cooperation.	12/31/04	75,000	Capacity building	Core
Regional: Conference to Support the Development of an East Asia and Pacific Utility Regulation Forum	Supporting efforts by East Asian regulators to conduct a dialogue on regional issues, build the capacity of member agencies, share lessons learned, and develop collaborative approaches to training and capacity building.	1/31/05	192,878	Capacity building	Core
Regional: Identifying Key Challenges and Policy Implications in Infrastructure Service Provision and Financing in the Region	Analyzing infrastructure provision over the past five years in East Asia with a view to incorporating lessons into forward-looking strategies for sustainable service delivery in the region.	1/28/05	310,000	Emerging best practices	Non-Core
<b>EASTERN EUROPE AND CENTRAL ASIA</b>					
Armenia: Strengthening the Capacity of the Utilities Regulatory Commission	Strengthening the institutional and technical capacity of the newly established Public Services Regulatory Commission by drafting water service quality regulations, formulating customer service standards, and raising public awareness of regulatory activities.	12/30/05	395,850	Capacity building	Core
Georgia: Harmonization of Legislation in the Energy Sector	Supporting the harmonization of laws and regulations to promote private participation in the energy sector and strengthening the independence of the Georgia National Energy Regulatory Commission by clarifying legislation and enhancing the commission's technical capacity in licensing, setting tariffs, and structuring targeted subsidies.	6/30/05	425,000	Capacity building	Core
Kyrgyz Republic: Conference on Effective Models of Public-Private Partnership in the Energy Sector	Conducting a conference designed to equip officials and private investors with effective models of public-private partnership in the unbundled energy sector.	6/30/05	75,000	Consensus building	Non-Core
Tajikistan: Assisting in Contract Compliance under the Pamir Private Power Project	Helping to strengthen the capacity of the Ministry of Energy to manage contract compliance and tariff setting for the Pamir Private Power Project.	6/30/05	75,000	Capacity building	Non-Core
Turkey: Development of a Transition Plan for Electricity Sector Reform	Prepared a strategy for reforming and privatizing the electricity sector, with broad participation from the government, the private sector, and consumer groups, in preparation for launching privatization tenders for electricity distribution in early 2005.	Completed	75,000	Consensus building	Core
Ukraine: Advisory Services to Implement Reforms in the Wholesale Electricity Market	Advising the National Electricity Regulatory Commission on restructuring the wholesale electricity market, an initiative that will include licensing market participants, developing a methodology for setting generation tariffs, and converting from a single-buyer to a bilateral contractual model.	12/27/04	342,000	Policy, regulatory, and institutional reforms	Core



Activity	Description of activity	Target completion date	Funding approved (US\$)	Deliverable	Type of funding
<b>EASTERN EUROPE AND CENTRAL ASIA</b>					
Regional: Establishing a Central Asia Regulators Forum	Conducting a workshop at the Asian Development Bank for Central Asian energy regulators to discuss the viability of establishing a regional forum of regulators.	6/30/05	150,000	Consensus building	Non-Core
Regional: Framework to Leverage Effective Financing Structures for Public-Private Partnerships in Infrastructure	Analyzing constraints to private entry in infrastructure and formulating innovative hybrid financing mechanisms to attract private investment that would leverage European Union (EU) structural finance for new EU members.	6/30/05	70,000	Consensus building	Core
<b>LATIN AMERICA AND THE CARIBBEAN</b>					
Brazil: Development of a Regulatory Accounting Model for Concessions in Highways and Railways	Developing a regulatory accounting model for highway and railway concessions.	3/30/05	250,000	Policy, regulatory, and institutional reforms	Core
Brazil: Evaluation of Regulatory Governance in Infrastructure	Evaluating regulatory governance and the impact of regulatory agencies in infrastructure with a view to improving their efficiency and alleviating regulatory risk.	12/30/04	75,000	Policy, regulatory, and institutional reforms	Core
Brazil: Regulatory Options for the Power Sector	Assisting the Ministry of Mines and Energy in analyzing critical aspects of the ongoing reform of the power sector, including industry structure, market design, and regulatory issues that have persisted since the supply crisis of 2001–02.	6/30/05	225,000	Policy, regulatory, and institutional reforms	Core
Costa Rica: Options for Local and Regional Private Participation in Infrastructure	Exploring options for involving local and regional private operators in key infrastructure sectors.	9/20/05	372,000	Infrastructure development strategies	Core
Dominica: Advisory Services to Amend the Electricity Act	Providing technical assistance in amending the Electricity Act to enable private licensees to generate and distribute electricity.	12/30/04	75,000	Policy, regulatory, and institutional reforms	Core
Dominica: Regulatory Reform of the Electricity Sector	Providing technical assistance in designing and implementing a new regulatory framework for electricity generation, transmission, and distribution and in strengthening the technical capacity of the regulatory agency.	12/30/04	75,000	Policy, regulatory, and institutional reforms	Core
Guatemala: Strategy for Telecommunications in Rural Areas	Assisting the government in developing and implementing a strategy for improving private provision of telecommunications services in rural areas.	5/31/05	194,600	Infrastructure development strategies	Core
Honduras: Reform of the Water and Sanitation Sector	Assisting the government in fulfilling the mandate of the recently created Consejo Nacional de Agua Potable y Saneamiento (CONASA) to improve efficiency and ensure long-term sustainability of private water supply and sanitation services.	3/31/05	573,575	Policy, regulatory, and institutional reforms	Core
Regional: Promotion of Universal Access to Telecommunications in Latin America and the Caribbean	Supporting the adoption and implementation of programs for achieving universal access to information and communications technology services in Latin America in association with Regulatel, the association of telecommunications regulators in the region.	10/29/05	299,748	Infrastructure development strategies	Core

Activity	Description of activity	Target completion date	Funding approved (US\$)	Deliverable	Type of funding
<b>MIDDLE EAST AND NORTH AFRICA</b>					
Djibouti: Options for Institutional Restructuring of the Electricity and Water and Sanitation Sectors	Preparing a study on institutional options for managing urban electricity, water supply, and wastewater services with private participation.	2/28/05	74,780	Infrastructure development strategies	Core
Arab Republic of Egypt: Public-Private Partnership Models in Irrigation	Preparing a conceptual framework for a model transaction with private participation in irrigation infrastructure in the West Delta region of the lower Nile basin.	12/31/04	75,000	Infrastructure development strategies	Core
Jordan: Design of Optimal Tariff Methodologies in Electricity	Developing a methodology for setting electricity tariffs and designing a training program for the Electricity Regulatory Commission.	6/30/05	71,000	Policy, regulatory, and institutional reforms	Core
West Bank and Gaza: Reforms in Telecommunications Regulation	Formulating and drafting a new telecommunications law to provide for greater private participation and assisting in developing an independent regulatory body with optimal stakeholder participation toward future compliance with conditions of the World Trade Organization.	6/30/05	246,870	Policy, regulatory, and institutional reforms	Core
Regional: Roundtable on Water, Sanitation, and Power in the Middle East and North Africa in Marrakech	Facilitating dialogue on issues, constraints, and strategies involved in encouraging private participation in infrastructure in the region and enhancing accountability in service delivery, particularly in the water and power sectors.	12/31/04	281,240	Consensus building	Core
Regional: Seminar on Competition and Regulation of Infrastructure Sectors in the Region	Conducting a one-week residential seminar to raise awareness of and disseminate best practices in market-oriented reforms and regulation in infrastructure in the region, in collaboration with Private Participation in Mediterranean Infrastructure (a facility funded by multiple donors) and the World Bank Institute.	12/31/04	62,500	Capacity building	Core
<b>SOUTH ASIA</b>					
Bangladesh: Development of a Remote Area Power Supply Systems Model on Kutubdia Island	Preparing typical bidding documents and approaches to facilitate the solicitation and appraisal of bids from private companies to provide power to rural areas of Kutubdia Island.	12/31/04	66,500	Pioneering transactions	Core
India: Development of a Pilot Private Sector Participation Model for Drinking Water Distribution in Mumbai	Assisting the government in procuring consultants to prepare bid documents and conduct pre- and postqualification of bidders for the management contract for Mumbai water supply services.	9/30/05	692,500	Pioneering transactions	Core
India: Public-Private Partnership in Infrastructure Services Provision in Tamil Nadu	Assisting the government of Tamil Nadu in preparing a policy framework to create an appropriate enabling environment for scaling up public-private partnerships to help address the state's infrastructure needs.	5/27/05	390,300	Policy, regulatory, and institutional reforms	Core

Activity	Description of activity	Target completion date	Funding approved (US\$)	Deliverable	Type of funding
<b>GLOBAL</b>					
Analysis of the Emergence of Local and Regional Investors and Operators in Infrastructure Provision	Exploring and analyzing the role and potential of local and regional investors in service provision in key infrastructure sectors.	11/15/04	74,600	Emerging best practices	Core
Analysis of Performance Indicators in the Provision of Private Infrastructure Services	Analyzing and comparing performance indicators for public and private water and power utilities.	7/29/05	500,000	Emerging best practices	Core
Development of a Web-Based Multilingual Database of Regulatory Decisions in Telecommunications	Determining the feasibility of a searchable, Web-based, multilingual database of regulatory decisions around the world that would be aimed at assisting telecommunications regulators in managing dispute resolution.	11/30/04	75,000	Emerging best practices	Core
Risk Management Tools for Clean Infrastructure Projects	Prepared case studies highlighting the use of appropriate risk management tools to reduce the cost and risk of using "clean" technologies in infrastructure projects.	Completed	73,950	Emerging best practices	Core
Toolkit on Market-Based Approaches in Private Sector Provision of Bus Services	Supporting national and urban policymakers in developing contracting and regulatory procedures, and in adopting institutional and financing options, for engaging the private sector in market-based approaches to providing urban bus transport.	2/28/05	525,000	Emerging best practices	Core
Training Senior Policymakers, Journalists, and Advocacy Groups in Utility Regulation and Infrastructure Finance	Adapting materials on utility regulation and infrastructure finance to improve understanding and awareness among policymakers, journalists, and advocacy groups.	11/30/05	320,000	Capacity building	Core
Total			14,220,760		



## Annex 2



# PPIAF Work Programs for Fiscal 2004 and 2005

## Percentage share of program

	Fiscal 2004 Indicative Work Program	Fiscal 2004 actual work program	Fiscal 2005 Indicative Work Program
<b>Activities in key areas of action</b>	<b>70</b>	<b>75</b>	<b>72</b>
Infrastructure development strategies	20	22	24
Policy, regulatory, and institutional reforms	28	27	24
Consensus building	7	6	9
Capacity building	10	16	14
Support to pioneering projects and transactions	5	5	1
Identification, dissemination, and promotion of emerging best practices	15	12	13
Conferences and toolkits	12	8	10
Other	3	5	3
<b>Project Management Unit expenditures</b>	<b>15</b>	<b>13</b>	<b>15</b>
Total	100	100	100





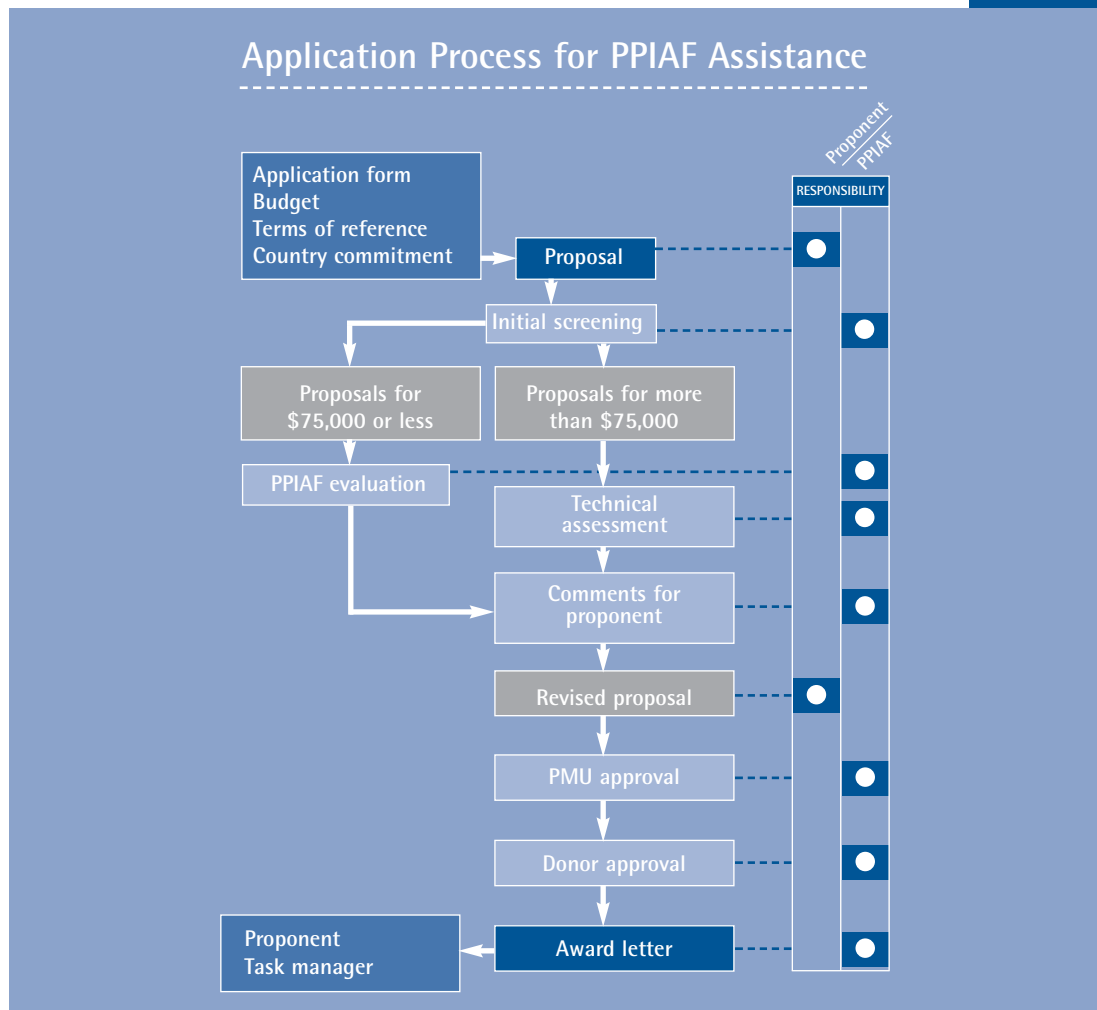
## Annex 3



## Process for Evaluating and Approving Proposals for PPIAF Assistance

1. The process for evaluating and approving proposals for PPIAF assistance has been designed to ensure conformity with the approval criteria and the annual work program (figure A3.1).
2. Proposals for PPIAF assistance may be evaluated and approved through one of two processes:
  - (a) Proposals may be specifically identified in the annual work programs approved at annual meetings of the Program Council, or
  - (b) Proposals may be dealt with by the Program Management Unit between meetings of the Program Council in accordance with the agreed work program, criteria, and processes.
3. The evaluation and approval processes for the second category of proposals aim to strike a balance among speed, cost, comprehensiveness of evaluation, transparency, and other considerations. To facilitate this approach, proposals are classified according to the amount of support requested from PPIAF: small (\$75,000 or less), medium-size (more than \$75,000 and up to \$250,000), or large (more than \$250,000).
4. The evaluation and approval process for proposals under the Core Fund is described below. Proposals for which funding is sought from Non-Core Funds will generally follow the same process, with final approval required from the relevant donor rather than the Program Council as a whole.

Figure A3.1



Note: PMU is the Program Management Unit.

## 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. The World Bank Group's Country Assistance Strategy does not govern PPIAF's activities 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.<sup>1</sup> To facilitate this process, participating donors are to advise the Program Management Unit of relevant contact details within their organization. In the case of donors not participating in PPIAF, best endeavors will be made to obtain relevant information on these donors’ programs.
15. If the above processes reveal any issue of donor coordination in the proposal, the Program Management Unit shall endeavor to resolve such matters through appropriate consultation. Matters that cannot be resolved in this manner may be referred to the Program Council for further guidance.

## E. Approval

16. Proposals that pass the above tests will be subject to final approval according to the following process.
17. For small and medium-size proposals (\$250,000 or less), the program manager is authorized to approve the proposal without further reference to the Program Council. However, the program manager shall inform the Program Council of the approval activity through quarterly reports.
18. For large proposals (more than \$250,000), the Program Management Unit is required to seek the endorsement of the Program Council on a “no objection” basis. This will normally be done through a series of quarterly reports based on the quarterly batching of proposals, where donors would be asked to register any objection within 10 working days. For urgent requests, the Program Council may be invited to endorse the activity at the same time that it is asked to waive the batching requirement (see para 10) and to confirm that there is no conflict with donor programs or activities (see para 14).

## F. Notification of Proponent

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

## G. Execution

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

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

## PHOTO CREDITS

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