

## Public sector institutions

Governments and public sector agencies remain at the heart of infrastructure planning, regulation and delivery whether none, some or all infrastructure is financed through a PPP option. Those three scenarios and intermediate conditions obviously require different PPP arrangements for government institutions.

It also means that governments have to manage the reform process which is always difficult given that there are almost certainly winners and losers.

Governments also remain responsible for economic development including social goals which can be partly achieved through PPP programs if built into design objectives.

Governments are also responsible for infrastructure finance, fiscal space and overall risk mitigation for all 'public' sector projects whether PPP or not and whether developed at central sub national level. This has also implications for the local capital market, financing institutions and funding instruments which the government can support, regulate for, possibly fund where appropriate and encourage.



Infrastructure in Latin America and the Caribbean-recent Developments and Key Challenges, Foy and Morrison, WB, 2007

### Scope of PPP development

As already mentioned, PPP and its mechanisms cover many different forms of private partnership. The most successful outcome of PPP development would result in the private sector being responsible for a large share of transport provision and services. Even in the roads sector, where public investments will continue to be needed for low traffic roads, toll roads are becoming increasingly important and are increasing shares of all traffic needs, as in Argentina and some parts of Brazil. It is not too risky to predict that this trend is likely to continue as the demand for transport services continues to grow much faster than the government's ability to raise the resources to finance it.

A key advantage of having the private sector provide public services is that it allows public administrators to concentrate on planning, policy and regulation. The private sector, in turn, is empowered to do what it does best, and in particular improve the efficiency and quality of service.

In some cases, governments have recognized that it is also fiscally profitable to privatize services that demand huge amounts of subsidies at high delivery costs, as private operators can often cut these costs quite quickly.

Privatizing public services raises many questions that have to be tackled by the reform teams: the forms of competition, the type of unbundling, the sequencing of the process together with the ranking of government objectives. The most difficult challenge for governments is to prepare to enforce the commitments made through the PPP development transactions. This means that after PPP development, the Transport

Ministries and Secretaries have to resist the temptation to create a shadow management of the activities they used to run.

On the other hand, the transfer of infrastructure services to the private sector should not lead to privileged deals or profit secured by government guarantees. They should be businesses with regulated income streams which derive their profits from increased efficiency and the attraction of additional demand.

## The Different Steps

According to A. Talvitie, a five-step sequence is identified for the evolution of Highway Authority toward a client-producer system in which public service operation is eventually transferred to the private sector:

- Establishment of a traditional construction and maintenance organization;
- Identification of client and producer functions. The client organization is responsible for governmental functions: administration, management and planning; contracting, and associated information collection and dissemination functions related to roads. The producer organization is responsible for execution: design, construction, maintenance, and operation of the road system.
- Separation of client and producer organizations; introduction of a road board.
- Corporatization or PPP development of the producer organization and establishment of an autonomous (client) Highway Authority; installation of a road fund.
- Corporatization of the (client) Highway Authority or agency.

To move from stage 1 to stage 2 means that the Highway Authority adopts a deconcentrated form of organization. Specialization gains in importance and the client and producer roles became identified. Later in this phase, the Ministry of Transport begins to concentrate on multimodal policy, and the Highway Authority begins to decentralize.

In stage 3, greater reliance on the market mechanism leads to the separation of the client and producer organizations. The client organization remains as the Highway Authority, and the producer organization reports either directly to the Ministry of Transport (as in Poland) or to the central management of the Highway Authority (as in the Scandinavian countries). The road board normally appears in this phase. The Highway Authority decentralizes its organization. The central office manages and the regional offices reporting to it are responsible for the quality and quantity of the service delivery. The ministry delegates budgetary and other responsibilities to the (client) Highway Authority and the road board. It defines only the mission of the administration, its broad goals - which change from time to time- and fixes the annual budget.

In stage 4 the producer organization is privatized and a road fund is established to provide for partial autonomy of the Highway Authority. The ministry is likely to delegate all budgetary responsibilities to the Highway Authority through the road board and concentrates on defining and developing the policy framework. The central office of the Highway Authority, now responsible for policy uniformity, budget distribution, important goals and performance audit, is small and manages effectively using modern technology and management systems. The road program is managed by the regional offices. They also carry out performance measurement, which is institutionalized.

In stage 5 the (client) Highway Authority is corporatized and becomes the formal owner of the roads on behalf of the government. The Highway Authority simulates a private corporation under the ministry’s authority. Its source of income is the road fund financed from road user charges.

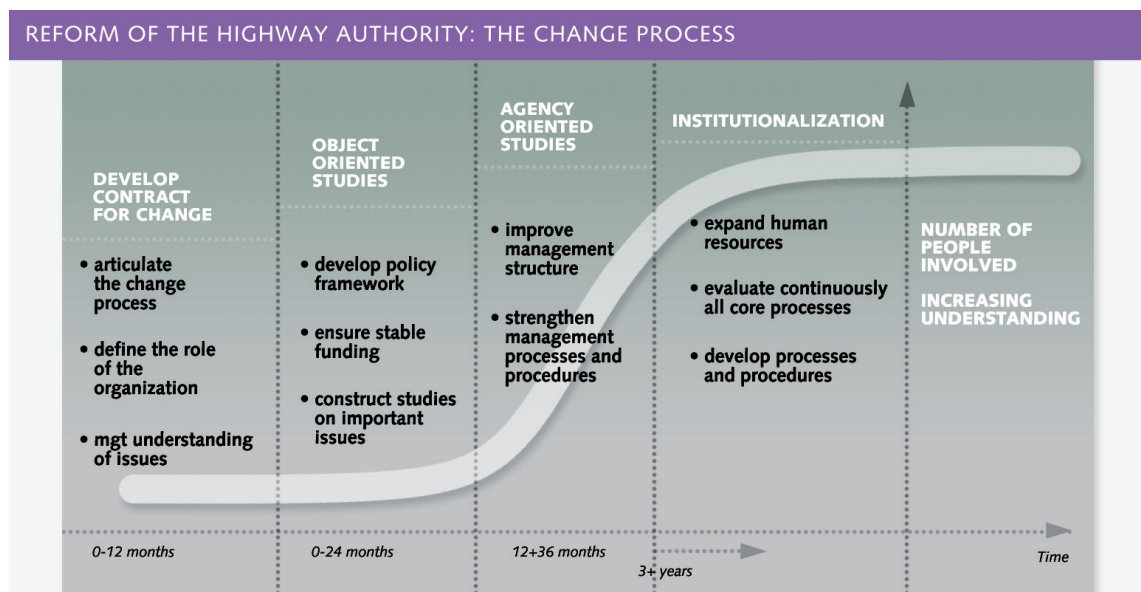
The following principal problems may persist even in Phase 4, after the Highway Authority has become the client organization, and production is privatized: unclear administrative performance, suboptimal network size, budget, neglect (or surplus) of maintenance, ineffectiveness of management, and inattention to social effects of roads. A remedy for some of these issues can be the corporatization of the client organization, proposed in Phase 5 as the culmination of a mature evolutionary process.

Can a country successfully skip some of these stages? Proposals are often made to jump from Phase I to Phase 3 and skip Phase 2. However, many important, often simultaneously occurring activities are accomplished in Phase 2, without which Phase 3 cannot succeed. These include identification and learning of new roles (client, producer), reorganization of the sector, legal and regulatory development, improvement of contracting procedures, emergence of new issues (traffic safety, public transport, engineering-economics), and development of modern management tools (road and traffic data collection, road data bank, management systems).

The evolution described must be revised when greater skills are acquired in managing institutional change. A great deal of experiential learning must take place by the professionals in the institution to manage a modern Highway Authority.

### The Change Process

In the chart below, Antti Talvitie further describes the various stages in the reform process and the core activities to be performed at each stage. The chart shows an increased level of understanding of the process by the highway authority and the growing number of personnel involved.



Source: Talvitie (1998)

For more information, consult the reference by Antti P. Talvitie:



International experience in restructuring the road sector, A. Talvitie, Transportation Research Record 1556, 1998, page 6

## Examples of Experience

### The Colombian Institute of Highways

In 1994, the Ministry of Transport of Colombia transferred the national highways function from the Ministry to a semi-autonomous institute, and eliminated all force account work. In 1996, the new National Institute of Highways (INVIAS) decided (with financial support from the World Bank) to initiate a major modernization program to strengthen institutional and financial resources for management of road networks and infrastructure.

INVIAS was then working with a team of consultants to rapidly diagnose, plan and implement their program, including new financing strategies and procedures, contracting and project management processes, human resource approaches, and executive and technical information systems.

INVIAS which is taking advantage of the comparative advantages offered by the private sector, and has identified the transitional steps to move in that direction, aims at becoming, in the near future, a high performance public organization.

### Commercialization of Roads in the Dominican Republic

In the Dominican Republic, maintenance neglect between 1980 and 1986 led to a badly deteriorated network, which could only be corrected by major rehabilitation or reconstruction. At that time, the Secretariat of State for Public Works and Communications (SEOPC) had responsibility for overall transport sector management. In practice, however, SEOPC concentrated on the road sector, ranging from road planning, maintenance and construction, as well as road transport activities.

The first major restructuring initiative dates from 1987, when a major nationwide road rehabilitation program was launched, funded by the government and multilateral sources including World Bank loans. Among the objectives of the project, the improvement of the institutional capacity of SEOPC to plan and maintain the road system was stressed.

Apart from a significant improvement in the network quality, another achievement of the program was major reforms in the organization and financing of the road sector. Contracting out maintenance and rehabilitation activities has reduced costs by as much as 30%; the contracting out of maintenance was part of the process to strengthen SEOPC's project management and road maintenance planning and monitoring capacity. Contracting out activities also helped develop the capabilities of local construction companies, especially in the areas of pre-qualification and the quality of bidding documents and proposals.