7

Recent PPP experience in Commonwealth developing countries

Summarising the section

- A number of Commonwealth countries suffer from a large infrastructure deficit, with considerable variation between countries.
- Private sector participation in infrastructure in Commonwealth developing countries is becoming increasingly important. 431 projects involving investments of US$109.2 billion reached financial close over the period 2000–2007. Many of these projects were in India and Malaysia, but there have been a growing number of transactions in other Commonwealth countries as well.
- Greenfield projects have dominated in Commonwealth developing countries. In more recent years, however, the number of concession projects in Commonwealth developing countries has risen (and subsequently fallen back again). Divestitures appear to be far less prominent in Commonwealth developing countries compared with developing countries as a whole.
- The energy sector has seen the largest number of transactions in Commonwealth countries over the period 1990–2007.
- The experience of PPP transactions across Commonwealth developing countries, and within sectors in each country, has varied substantially, based on the nature and extent of the constraints to infrastructure PPPs. In addition, different models have been adopted in different country and sector contexts. These are important examples of both good and bad practice, as well as presenting many interesting lessons for the future.

This section discusses recent experience with infrastructure PPPs in Commonwealth developing countries.[1] They include a diverse mix of countries, from large states such as India and Nigeria to small island states such as the Caribbean islands; from fast-growing economies such as those of India, Mozambique and Tanzania to slower growing economies with near zero or negative GDP growth rates in some years such as Lesotho and Guyana. Some of the countries involved, such as India, Malaysia and Nigeria, have considerable experience of infrastructure PPPs; others, like some African states, are only just embarking on their national PPP programmes. The overall PPP experience provides important lessons for Commonwealth countries. This is discussed in Section 8.

This section first outlines the current background to infrastructure PPPs in terms of the infrastructure gap and some measures of the PPP enabling environment, and goes on to describe broad trends and select PPP transaction experience across sectors and in selected Commonwealth countries.

7.1. The infrastructure gap

In many low-income Commonwealth countries, as in the rest of the developing world, there is a large infrastructure gap. Existing infrastructure is incapable of meeting the demands of growing populations and is a major constraint to economic and social development. Without significant infrastructure development, this will only get worse as demands for services rise with economic growth and rural-urban migration.

Table 7.1 sets out some measures of the infrastructure gap in selected Commonwealth developing countries. Annex 3 provides a more complete dataset for all 48 Commonwealth developing countries.

Table 7.1. The infrastructure gap in selected Commonwealth countries[2]

Region	*Country*	*Electric power consumption*[a]	*Paved roads*[b] *(%)*	*Improved sanitation facilities, urban*[c] *(%)*	*Improved water source*[d] *(%)*
EAP	Brunei Darussalam	8,173.8	77.2		99.0
	Malaysia	3,387.6	79.8	95.0	99.0
	Papua New Guinea		3.5	67.0	40.0
LAC	Antigua and Barbuda		33.0	98.0	
	Jamaica	2,453.2	73.3	82.0	93.0
	Trinidad and Tobago	5,005.9	51.1	92.0	94.0
SAR	Bangladesh	146.0	10.0	48.0	80.0
	India	502.8	47.4	52.0	89.0
	Sri Lanka	400.1	81.0	89.0	82.0
SSA	Cameroon	185.6	8.4	58.0	70.0
	Ghana	303.6	14.9	15.0	80.0
	Kenya	145.3	14.1	19.0	57.0
	Nigeria	116.4	15.0	35.0	47.0
	Tanzania	58.8	8.6	31.0	55.0

[a] kWh per capita; [b] Percentage of total roads; [c] Percentage of urban population with access; [d] Percentage of population with access.

Table 7.1 illustrates the infrastructure challenge across Commonwealth countries today. While some infrastructure deficits, such as poor access to water and sanitation, directly impact on development, other deficits, such as limited access to electricity, result in missed economic opportunities and consequently impact on overall development. For example, only around 8 per cent of roads are paved in Tanzania and Cameroon,

an infrastructure gap that constrains businesses, as well as access to vital health and education services. Approximately 50 per cent of the population in Kenya, Nigeria and Tanzania have access to an improved water source, with a concomitant impact on disease and hygiene levels, particularly for women and children.

There is also considerable diversity among Commonwealth countries. For example, average electricity consumption for all Commonwealth countries is 1,684.7 kWh per capita: some countries, such as Malaysia, have a much higher consumption, while in others, such as Tanzania, consumption is far lower.

A study by Africa Infrastructure Country Diagnostic (AICD) estimates that if African countries could improve their infrastructure so that it was as good as that of Mauritius, they would benefit from an additional 2.2 per cent per capita GDP growth each year. They would gain an additional 0.4 per cent if their infrastructure was comparable to that of South Korea.[3] Enterprise surveys carried out by the World Bank also present some interesting results: in 2006, Indian firms reported losing 6.62 per cent of sales due to power outages, and in Uganda the loss was even higher at 10 per cent. In Kenya over 30 per cent and in Nigeria over 75 per cent of firms identified transport as a major constraint.[4]

7.2. Enabling environment for PPPs

The enabling environment for infrastructure PPPs varies substantially among Commonwealth developing countries. While some countries have more supportive enabling environments, other countries have still to develop a facilitating environment.

As discussed in Section 4.1, the enabling environment comprises a number of different elements, including policy, legal and regulatory frameworks. While an assessment of these frameworks is beyond the scope of this Reference Guide, other overall indicators, such as the IFC's Doing Business Indicators[5] and measures of political risk (Oxford Analytica/Aon),[6] provide a useful reference point. Table 7.2 provides the four highest and lowest ranking countries according to the IFC rankings and their Oxford

Table 7.2. Doing business and political risk indicators in Commonwealth countries[7]

	Country	*Overall ease of doing business ranking (1–181)*	*Oxford Analytica/Aon Political risk level*
Highest ranking Commonwealth countries	Malaysia	20	Medium
	Mauritius	24	Medium-low
	South Africa	32	Medium
	St Lucia	34	Medium-low
Lower ranking Commonwealth countries	Malawi	134	Medium-high
	Mozambique	141	Medium-high
	Sierra Leone	156	Medium-high
	Cameroon	164	Medium

Analytica/Aon-perceived political risk levels. More details for all Commonwealth developing countries are provided in Annex 3.

A number of African countries received low scores in the overall ranking of 181 countries covered by the IFC Doing Business Indicators. However several, including Senegal, Burkina Faso and Botswana, have improved their rankings over time.

The Oxford Analytica/Aon Political Risk Map reflects an important component of the enabling environment, impacting on private sector investor confidence. The 2009 list designates three Commonwealth countries, Kenya, Nigeria and Pakistan, as high risk.[8] A number of the small island states in the LAC region, for example Trinidad and Tobago, and St Lucia, are accorded a medium-low rank. Further details are provided in Annex 3.

Table 7.2 also demonstrates a correlation between the ease of doing business and the political risk level, with most countries that rank high on the former indicator being ranked medium-low or medium in terms of political risk, and most countries with a low ease of doing business rank being accorded a medium-high level of political risk.

7.3. Trends in private sector participation in infrastructure

Private sector participation in infrastructure in Commonwealth developing countries is becoming increasingly important. In the 1990s, a total of 314 projects, with investments valued at US$125.3 billion, reached financial close; 431 projects with investments of US$109.2 billion reached financial close between 2000 and 2007. In particular, from 2005 to 2007, infrastructure projects with private participation in Commonwealth developing countries represented 37.5 per cent of the total number of projects reaching financial close and 34.6 per cent of total investment commitments across all developing countries.

However, this trend is dominated by India and Malaysia, with the former having the largest number of projects over the period 1990–2007 in terms of both number and value (see Figure 7.1).

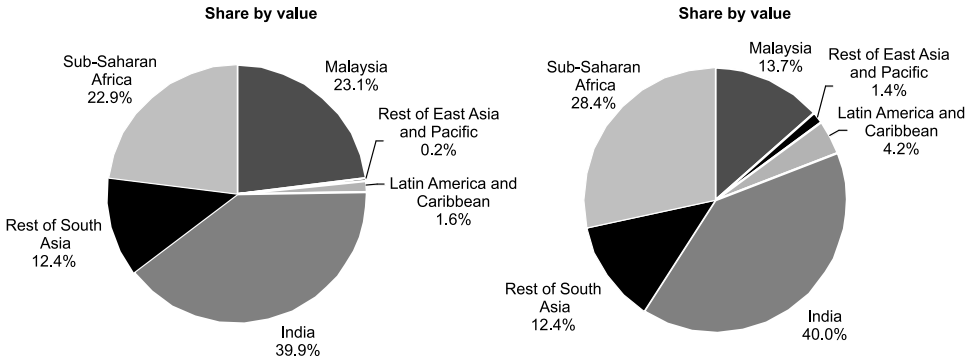

Figure 7.1. Global distribution of infrastructure projects with private participation in Commonwealth countries, 1990–2007[9]

However, since 2000 there have also been a number of transactions in other Commonwealth countries. Table 7.3 shows the number of infrastructure projects with private participation that have reached financial close in the years 2000–2008 in Commonwealth developing countries other than India and Malaysia.

Table 7.3. Infrastructure projects with private participation that reached financial close in 2000–2008 in Commonwealth developing countries (excluding India and Malaysia) [10]

Country	*Number of projects*
Nigeria	49
Pakistan	47
South Africa	32
Bangladesh	23
Sri Lanka	22
Tanzania	21
Kenya	16
Ghana	15
Mozambique	15
Uganda	15

Figure 7.2 provides a comparison of infrastructure trends by type of contract between the Commonwealth and the rest of the developing world.

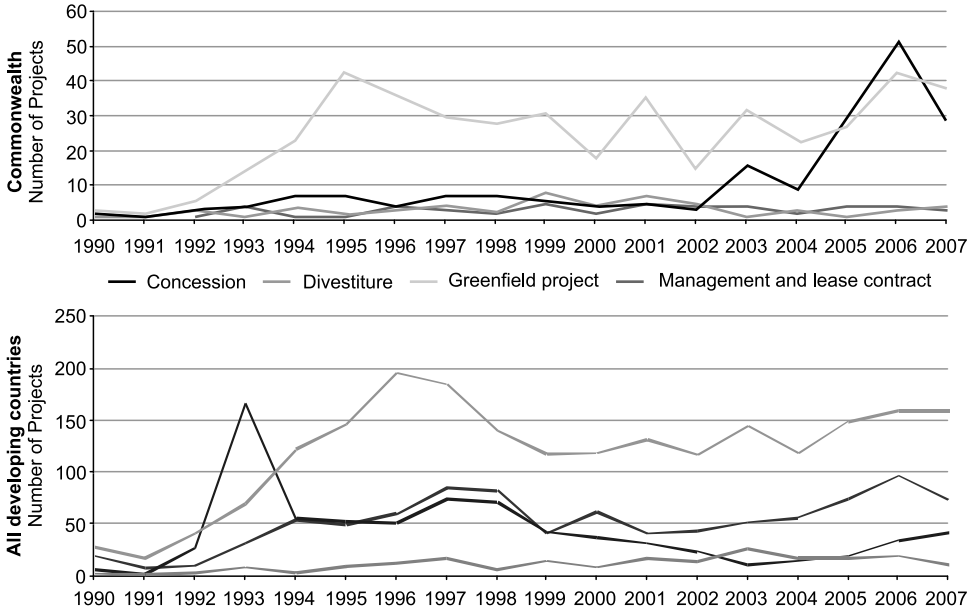

Figure 7.2. Number of infrastructure projects by type of private sector participation across Commonwealth countries and all developing countries, 1990–2007[11]

As Figure 7.2 shows, greenfield projects have dominated. However, in more recent years the number of concession projects in Commonwealth countries increased (and showed a subsequent fall). Divestitures appear to be far less prominent in Commonwealth developing countries compared with developing countries as a whole. As mentioned above, the number of Commonwealth projects is dominated by India and Malaysia; however, the trends by contract excluding these two countries are similar, with greenfield projects being the most frequent type, particularly in the 1990s, and concessions experiencing a sharp peak in 2005.

In terms of sector, transport BOTs and energy IPPs dominated in India. In Malaysia, most projects were in the road and electricity sectors. The energy sector saw the largest number of transactions in all other Commonwealth countries over the period 1990–2007.

7.4. PPP transaction experience across core infrastructure sectors

The experience of PPP transactions across Commonwealth developing countries, and within sectors in each country, has varied substantially, based on the nature and extent of the constraints to infrastructure PPPs, as discussed in Section 5.1. In addition, various models have been adopted in different country and sector contexts, presenting important examples of both good and bad practice, as well as many interesting lessons for the future. A detailed examination of the different models employed is beyond the scope of this Guide. However, some specific examples are discussed in this section and examined in more detail in Annex 5.

In the energy sector, independent power projects have dominated infrastructure PPPs in most countries. Box 7.1 provides a discussion of the experience of IPPs in Africa.

Box 7.1. IPPs in Africa

IPPs are privately financed greenfield generation projects, typically supported by limited or non-recourse loans and long-term power purchase agreements. They are governed by contract and do not normally require independent regulation.

IPPs emerged as a new model for African power systems in the 1990s, adding capacity to bolster predominantly state-owned energy sectors or set up as part of wholesale energy sector unbundling and reform. They were considered to be a 'quick and relatively easy fix to persistent supply constraints, and could also potentially serve to benchmark state-owned supply and gradually introduce competition'.[12] Over the course of the decade they gained increasing support from international development institutions, receiving preference over state-owned operations. Support for African IPPs peaked in 1997, with US$1.8 billion of IPP investment being committed.[13] Despite their subsequent decline, IPPs remain a viable option in many countries. They contribute over 50 per cent of the electricity generated in Tanzania. Kenya and Nigeria have also been active in pursuing IPPs.

Examples of Commonwealth IPPs in Africa

Kenya Westmont (46MW US$35m), Iberafrica (56MW US$35m), OrPower4 (13MW US$54m), Tsavo (75MW US$85m)

Tanzania IPTL (100MW US$120m), Songas (180MW US$316m), Mtwara (12MW US$8.2m)

Nigeria AES Barge (270MW US$240m), Okpai (450MW US$462m)

Forty IPPs had been commissioned in Africa by 2007, with varying degrees of success. Gratwick and Eberhard (2008) found that across these projects certain factors influenced the likelihood of renegotiation or failure. There was an increased likelihood of renegotiation or failure where there was a perceived imbalance between the project sponsor and the host government. On the other hand, projects clearly benefited from favourable enabling environment factors and where more 'development-minded' firms and DFIs were involved.

Key references

- Gratwick, KL and Eberhard, A (2008), 'An Analysis of Independent Power Projects in Africa: Understanding Development and Investment Outcomes', *Development Policy Review,* 26 (3): 309–338.
  http://www.gsb.uct.ac.za/files/IPPinAfrica.pdf

The Meghnaghat power project in Bangladesh also presents an interesting example of a successful large-scale IPP awarded through a competitive bidding process and financed both by donor organisations and a government-owned financial institution, IDCOL.[14] A Power Purchase Agreement (PPA) from the Bangladesh Power Development Board (BPDB) to take or pay for all electricity generated up to a plant load factor of 85 per cent made the deal attractive to the private sector. The plant commenced commercial operations in 2002 and has increased power reliability at a reasonable cost.

Energy sector PPPs have also been undertaken in the transmission and distribution sectors. The Tala transmission project in India is the first interstate transmission project

undertaken via a PPP and is also the first BOT electricity transmission line outside the LAC region. The project highlights the importance of keeping in mind private sector incentives when structuring a PPP transaction, as the regulators increased the allowable IRR for the private investors. The energy distribution sector has had fewer transactions, although there have recently been several PPPs in India. In addition, in 2005 the Ugandan electricity distribution system was concessioned as a joint venture between CDC and Eskom (the 'Umeme concession'). Experience has been mixed with this contract. There has been some progress in investment and connectivity with the introduction of the PPP; however, system losses have not decreased, tariffs have repeatedly risen and there have been difficulties related to its structure as a joint venture.

In the transport sector, the annuity-based contracts employed in the roads sector in India present an interesting model. Under this model, traffic/demand risk is allocated to the government, which was instrumental in attracting private sector participation in the initial years of PPPs in the sector. Annex 5 provides an example of India's Panagarh-Palsit highway project, awarded on an annuity basis. The scheme forms part of the Golden Quadrilateral Project, India's main highways development, at a total cost of US$69 million. The financing package has a debt-equity ratio of 2:1, a higher than usual ratio compared to typical toll-based projects, as the annuity payments are considered to be a secure and stable source of funding by the financial community. However, the project became operational five months behind schedule, mainly because of difficulties in securing land – an issue that remains an important constraint in PPP projects in India and globally. In recent years, however, with greater development of both the private sector and local credit markets, the Government of India has focused on BOT-based road contracts.

Another interesting example is that of Highway 2000, a two-phase 230km multi-lane toll road project running from Jamaica's capital, Kingston, to Montego Bay, with a spur from Bushy Park to Ocho Rios. It reached financial close in 2002 as a 35-year BOT, to be completed at an estimated total cost of US$850 million. Two regulatory bodies have been established to monitor the concession: the Toll Authority and the Toll Regulator. Although the project as a whole is considered to be a success, the institutions created to monitor the single toll road are considered to be far in excess of requirements.

Airport PPPs have also gained considerable importance, especially since 2000. There have been concession and greenfield airport PPPs in India, Pakistan, Bangladesh, Malaysia, Jamaica, Nigeria and South Africa. The experience of the Nigerian airport BOT is particularly interesting, given the delays in project operations (stemming from both the cancellation of the original contract and its re-awarding to the current operator, as well as the difficulty faced by the current operator in achieving financial close). Currently, all domestic flights continue to operate from the old airport terminal, putting significant pressure on the ability of the private sponsor to recover its investments and thus placing the financial viability of the project at risk (see Annex 5). This illustrates the difficulty of enforcing contractual agreements in some developing countries.

A major transaction in the railways sector is the Kenya-Uganda rail concession, which was awarded to the Rift Valley Railways (RVR) consortium for 25 years in December 2006. The project has run into considerable operational and legal difficulties, which have significantly hampered the likelihood of success. Issues relating to lack of investment and improvements in operational effectiveness have led the governments to consider cancellation of the contract. However, more recently the parties have reached an out-of-court settlement, whereby RVR will continue to be the concessionaire in exchange for the dilution of Sheltam's (the main sponsor) shareholdings from 35 to 10 per cent. This case study highlights the importance of attracting 'competent' private companies for the successful implementation of a contract. In this case, there were concerns that Sheltam lacked the experience of running a complex railway network and therefore was not in a position to enhance cash flows sufficiently to generate the required investment resources. In addition, the different approaches followed by the Kenyan and Ugandan governments point to the political dimension of running a cross-border PPP contract, and the difficulties that may arise in achieving co-operation between governments.

The water and sanitation sectors have seen the smallest number of PPPs among core infrastructure sectors. The main PPP transactions in this sector have been in India, Malaysia and South Africa, where there have been some BOT (and associated variant) contracts for treatment plants, as well as several concessions. (These include four concessions in Malaysia, including the Sybas water distribution concession; the Greater Nelspruit Utility Company in South Africa; and the Latur Water Supply Scheme in India.) Apart from these, there have only been a handful of management and lease contracts in the water and sanitation sector in other Commonwealth countries. Management contracts such as the New Tiruppur project in India are based on charging a higher tariff for industrial users to subsidise domestic consumption. The Dar es Salaam water distribution contract in Tanzania was a lease contract that has now been cancelled. The transaction provides important lessons on the difficulty of structuring, developing and implementing PPPs in the water sector. Considerable care and detail needs to be applied in structuring a PPP transaction, with a thorough feasibility study and appropriate risk mitigation measures, to ensure the financial viability and success of the transaction. The project also highlights the impact of political processes on transactions – an election was scheduled in Tanzania at the time the project was going forward.

Table 7.4 summarises some of the examples discussed above (see also Annex 5).

Table 7.4. Lessons learned from a sample of key transactions in Commonwealth countries

Project Name	*Country*	*Type of PPI*	*Sector*	*Total investment (US$ m)*	*Key lessons*
Dar es Salaam Water Distribution (2003) *Cancelled*	Tanzania	Lease contract	Water and sanitation	8.5	The transaction was cancelled because the concessionaire did not perform adequately and there was insufficient support from government bodies. The experience points towards the need for considerable care and detail in structuring a PPP transaction, with a thorough feasibility study and appropriate risk mitigation measures in place, to ensure the financial viability and success of the transaction.
Point Lisas Desalination Plant (1999)	Trinidad and Tobago	Greenfield – BOO	Water and sanitation	120	There have been disputes between the private operator and the Trinidad Water and Sewerage Authority (WASA) regarding an increase in tariffs; this has placed increasing strain on the financial viability of the project. The experience reflects the difficulty of implementing a water PPP, given that tariffs tend to be a highly politicised issue. There have also been issues regarding the attitude of the public towards the project, reflecting the need to undertake an effective public relations campaign to inform the general public of the benefits of the project. However, overall operational performance has improved, reflecting the greater efficiency brought in by the private sector.
Kenya-Uganda Railways (2006)	Kenya and Uganda	Concession	Transport	404	The project has run into operational difficulties since its inception. There are concerns that Sheltam, the leader of the winning consortium, lacked experience of running a complex railway network. Sheltam has subsequently seen its shareholding diluted to below 35 per cent (previously 61 per cent). The lesson is that successful implementation of a contract depends very much on attracting competent private companies. Differing approaches undertaken by the Kenyan and Ugandan governments on contract performance also highlight the difficulty of implementing cross-border infrastructure projects.
Murtala Muhammed Airport Two (2006)	Nigeria	Greenfield – BOT	Transport	200	The initial winning bidder saw its contract revoked within six months, as the government was not happy that no construction had taken place since the signing of the contract. This points to the importance of managing politicians' expectations and setting realistic goals on timelines. The project also demonstrates the difficulty of enforcing contractual agreements, as domestic

Table 7.4. (continued)

Project Name	*Country*	*Type of PPI*	*Sector*	*Total investment (US$ m)*	*Key lessons*
					flights did not move to the new terminal once operational, as was originally envisaged under the contract. This has put the financial viability of the project on high risk.
Panagarh-Palsit Highway Project (2001)	India	Greenfield – BOT	Transport	69	The annuity method used in this transaction fixes the government's payments to the private sector at the beginning of the contract, and hence allocates revenue risk to the government. This makes the deal more attractive to the private sector, but places an additional burden on the government.
Meghnaghat Power Project (2001)	Bangladesh	Greenfield – BOO	Energy	300	The project is the first ever competitively-bid power project supported by the private sector in Bangladesh. An agreement with the Power Development Board to take or pay for all electricity generated up to a specified plant load factor enhanced the attractiveness of the project to the private sector.
Tala Transmission Project (2004)	India	Greenfield – BOT	Energy	269	This is the first BOT electricity transmission line outside the LAC region. There was limited initial interest from the private sector, so the electricity regulator increased the allowable IRR for private investors as a way of attracting more interest, demonstrating that it is important to structure a PPP transaction in such a way that it is attractive to the private sector. In addition, to make up for state electricity boards' poor payment records, it was necessary for the Power Grid Corp of India to assure 100 per cent payment to the private sponsor for transmitting power to the state boards. This shows that having risk mitigation measures in the PPP structure may be important to secure private sector interest.
National Referral Hospital (2008)	Lesotho	Greenfield – BOT	Health	100	The project received strong support from the government at the highest level. This positive signalling effect allowed the government to secure the services of a consortium led by an international healthcare provider with hospital PPP experience. The operating costs of the new facility will be similar to those at the existing hospital and therefore patients will not need to pay extra to use the new hospital. This shows that it is possible to structure a financially attractive deal for the private sector without having to increase end user charges.

7.5. Case studies of PPP experience in selected Commonwealth countries

This final section discusses the experience of three Commonwealth countries in implementing their PPP programmes. The case studies cover:

- The state of Victoria, Australia, where PPPs have been successfully facilitated by the well-known PPP unit Partnerships Victoria;
- South Africa, an example of a developing Commonwealth country that has achieved considerable success in implementing its PPP agenda; and
- Bangladesh, a country which has had some success in PPPs in the energy sector thus far and is now looking towards further developing its PPP agenda.

7.5.1. Victoria, Australia

Australia's federal structure means that most PPP activity is run by the individual states. As of December 2008, Victoria was the most active Australian state in terms of the number of PPP projects contracted (18), just ahead of neighbouring New South Wales (17).[15]

The composition of the Victorian PPP portfolio is heavily based on social PFI projects, although it has pursued a small number of core infrastructure projects in the transport, and water and sanitation sectors. This focus on core infrastructure PPP projects has been even more pronounced in the other Australian states, where there have been a higher proportion of road and water projects.

Maguire and Malinovitch (2005)[16] divide the evolution of PPP policy in Victoria into three stages:

- **Late 1980s–1992: Off balance sheet financing.** The motivation for PPPs was to gain off balance sheet financing for projects outside the limits set by the Australian loan council. The PPPs in this period had little impact on service delivery arrangements. Private finance was utilised, but was backed by government indemnities and guarantees, which limited risk transfer. Consequently, projects were brought forward, but were often structured in an inefficient manner that was later costly to unwind. Examples of projects from this period are the St Vincent's Hospital redevelopment (1991) and the Melbourne Magistrates Court Complex.
- **1993–1999: Belief in competition and efficiency of the private sector.** An infrastructure investment policy for Victoria was introduced in 1994. This shifted the motivation for PPP to the pursuit of private sector efficiency and risk transfer. Projects involved high levels of risk transfer and were no longer supported by significant guarantees from the government. This produced some large, unsustainable projects, created in a system of weak evaluation and assessment. Projects from this period include the Melbourne CityLink road project (1996) and Port Philip Prison (1996).

- **2000 to present: Value for money in the public interest and optimal risk transfer.** The Victoria Department of Treasury and Finance set up Partnerships Victoria[17] in 2000. Their first project was the Victoria County Court in 2002, typical of the social PFI-style projects they have pursued since then, with a strong emphasis on value for money and optimal risk transfer through whole-of-life-costing. Projects were implemented under Partnerships Victoria policy and guidance material, including the use of public sector comparator analysis and standardised contract documentation. Other examples from this period include the Eastlink, Mitcham-Frankston Freeway (2004) and Echua/Rochester Wastewater Treatment Plant (2004).

Victoria, together with the other states, has entered a further stage since 2008 – the process of integration and creation of a national market for PPPs. The National PPP Forum[18] was established in 2004 to pool knowledge and resources, and to share lessons learned in each state. The biggest step towards integration was the introduction of national PPP policy and guidelines in December 2008.[19] PPPs in Victoria since January 2009 must now comply with these national policies, supplemented by Partnerships Victoria policy in areas where the guidelines allow state-level flexibility.[20] One of the requirements of the new national guidelines is that PPP must be considered as a procurement option for any project involving capital expenditure of over A$50 million. One of the first projects to be completed under the guidelines is a A$3.5 billion desalination plant at Wonthaggi, expected to reach financial close in September 2009.

7.5.2. South Africa

The South African experience with PPPs has been noted worldwide, especially since the establishment of its PPP Unit in 2001. Compared to other developing Commonwealth countries, South Africa was a relatively early mover, borrowing significantly from the Partnerships UK approach. Between 1980 and 2006, 24 projects involving private sector participation reached financial close in the core infrastructure sectors of energy, transport, and water and sanitation.[21] Of these, 16 projects were initiated before 2001 (i.e. before the establishment of the PPP Unit). The South Africa PPP Unit reported a further 16 PPP projects in the health, education, tourism and other sectors as at January 2009 and 45 projects in the pipeline at both national and municipal levels.[22] Apart from one cancelled project in the water and sanitation sector in 1995, there have been no cancellations or outright project failures.

The beginnings of an integrated national PPP strategy came in 1997 with the establishment of an interdepartmental task team to develop policy and reforms to facilitate PPPs. This was supported by the setting up of the Municipal Infrastructure Investment Unit in 1998 to provide municipalities with technical and grant assistance. Before the full PPP framework was operational, several pilot PPP schemes were undertaken by government departments and municipalities.[23] An important PPP concession project during this period was the N4 toll road (a US$426 million investment reaching financial close in 1997)[24] linking South Africa and Mozambique. This road is an example of a difficult cross-border project that has performed well. Another project from this period was the Bloemfontein prison, one of two prisons reaching financial close in

2000. Plans for 11 PPP prisons were made, but higher costs than expected resulted in only two projects being taken forward.

The Cabinet endorsed a strategic framework for PPPs in 1999 and Treasury regulations for PPPs were issued in 2000. The culmination of this process was the creation of a PPP Unit in the Treasury in 2000 with international support from USAID, the UK Department for International Development (DFID) and the German Agency for Technical Cooperation (GTZ).[25] The Treasury Regulation 16 on PPPs, issued in terms of the Public Finance Management Act (PFMA) in 2004 is the key legislation for PPPs, outlining the procedure, approvals and management of PPPs.[26] The various modules of the PPP Manual and Standardised PPP Provisions are issued as Treasury *PPP Practice Notes* in terms of the PFMA.[27]

The PPP Unit has acted as a focal point for PPPs in the country. It has facilitated the completion of 18 projects, with no failures to date (although the Chapman's Peak Drive toll road has been closed for an extended period following rock slides in June 2008). While it has engaged in some core infrastructure projects (for example transport), the unit's projects have leaned to the social end of PPPs including health, tourism, IT and government accommodation. Typical of this is the first PPP unit-supported project, the R4.5 billion Inkosi Albert Luthuli Hospital, a state-of-the-art, but underutilised hospital near Durban. In contrast to this is the controversial R23.09 billion Gautrain (high-speed train) linking Johannesburg and Pretoria, which reached financial close in 2006. This project has been criticised for its substantially large investment costs as compared to other public transport projects in the country, and as a project that will primarily benefit the well-off.[28]

The South African experience highlights the important role of a well-functioning PPP unit in facilitating PPPs. The unit has received considerable political support, as well as being staffed with highly qualified advisers – both factors contributing favourably to its performance. The country's relatively more sophisticated financial and investment sector and overall enabling environment have also been important supporting factors. However, despite this, the rate of project closure in the country has been slow (about two projects a year), highlighting the inherent complexities in developing PPPs.

7.5.3. Bangladesh

Bangladesh's PPP programme commenced in the mid-1990s, when the government adopted a policy of promoting private sector participation in the power sector. Subsequently, and up to 2007, seven IPP projects have achieved financial close and are currently operational, providing approximately one-quarter of the country's generation capacity.[29] However, their success has been mixed – the large Haripur and Meghnaghat IPPs[30] reaching financial close in 2001 have been regarded as reasonably successful, but questions have been raised about the quality of the projects implemented since then.[31] In addition, over this period, Bangladesh has also undertaken five significant BOO fixed access telecom PPPs and three transport management contracts (a bridge, seaport terminal and airport).[32]

Bangladesh's PPP experience is built on the 2004 Bangladesh Private Sector Infrastructure Guidelines (PSIG).[33] These introduced the Private Infrastructure Committee (PICOM), designed to advance and monitor projects, while also providing a co-ordinating role between departments. PICOM is under the Prime Minister's Office, however, it has been contended that it has not received the political support required thus far. Beyond PICOM there are three main agencies supporting PPP in Bangladesh:

- **Infrastructure Development Company Ltd (IDCOL)**,[34] a government-sponsored company established in 1997 to promote private sector investment in infrastructure. IDCOL provides project finance and financial intermediation services and as of June 2009 had financed 22 (Tk13 billion) infrastructure projects, of which seven were BOO and two were BOT (see Section 5, Box 5.2).
- **Investment Promotion and Financing Facility (IPFF)**,[35] established in 2007 as a five-year investment promotion and financing facility, providing long-term finance for government-endorsed infrastructure. Its focus has been in the energy sector, bringing three BOO power projects to commercial operation and with two further projects nearing completion.
- **Infrastructure Investment Facilitation Centre (IIFC)**,[36] a government-sponsored company established in 1999 to assist government bodies formulate project proposals, screening and technical assistance. It became a fully commercial operation in 2007, when it began operating without any government or donor support. Sanghi et al. (2007)[37] criticises the design of the facility as leading to its limited role, and argues that it has done little to address investor perceptions of risk.

The infrastructure sectors are also supported by independent regulators for the energy and telecoms sectors.

The government recognises that although these initiatives have been useful in supporting PPP infrastructure project development in the country, they are not sufficient to cater to the needs and potential for the country. More recently, it is expected that Bangladesh's PPP programme will gain a renewed focus, with the new government claiming considerable support for the PPP approach. The Minister of Finance, Abul Maal Abdul Muhith, has expressed the government's commitment to support the PPP initiative with five key actions being planned by the end of 2009[38]:

1. reform of guidelines and institutional framework in the 2004 PSIG;
2. establishment of a PPP unit for budget formulation and implementation;
3. creation of a significant budgetary allocation for PPP (proposals for FY2009-10 include Tk21bn for project financing, Tk3bn for Viability Gap Funding and Tk1bn for technical assistance grants;
4. introduction of tax incentives for PPP investors; and
5. increased publicity for the new PPP initiative.

Notes

1. Of the 54 Commonwealth countries, the four developed countries of the UK, Canada, New Zealand and Australia are not discussed here. Fiji Islands is also not included, as it was suspended from the Commonwealth in 2009. Rwanda is also not included as it joined the Commonwealth after this report was written.
2. Table 7.1 includes the latest available information as of 2008. World Development Indicators database. http://ddp-ext.worldbank.org/ext/DDPQQ/member.do?method=getMembers& userid=1&queryId=135
3. http://siteresources.worldbank.org/INTAFRICA/Resources/AICD_exec_summ_9-30-08a.pdf
4. http://www.enterprisesurveys.org/
5. IFC, *Doing Business 2009*, http://www.doingbusiness.org/
6. Oxford Analytica/Aon Political Risk Map 2009, http://www.aon.com/risk-services/political-risk-map/index.html
7. IFC, op. cit. and Oxford Analytica/Aon, op. cit.
8. The risk ratings are: high, medium-high, medium, medium-low and low.
9. http://ppi.worldbank.org/
10. http://ppi.worldbank.org/
11. http://ppi.worldbank.org/
12. Gratwick and Eberhard (2008).
13. Ibid.
14. IDCOL provided a loan of US$80 million, the largest loan ever made by a Bangladeshi financial institution. In addition, the ADB made available its PRG scheme for the first time for a US$70 million loan from a syndicate of commercial banks.
15. http://www.pppforum.gov.au/national_pipeline/projects_contracted.aspx
16. Maguire, G and Malinovitch, A, 'Development of PPPs in Victoria', *Australian Accounting Review*, Vol. 14, No. 2. (2004). http://www.partnerships.vic.gov.au/CA25708500035EB6/WebObj/DevelopmentofPPPsinVictoria/$File/Development%20of%20PPPs%20in%20Victoria.pdf
17. http://www.partnerships.vic.gov.au/
18. http://www.pppforum.gov.au/
19. http://www.infrastructureaustralia.gov.au/public_private_partnership_policy_guidelines.aspx
20. http://www.partnerships.vic.gov.au/CA25708500035EB6/WebObj/PartnershipsVictoriaStatement-February2009/$File/Partnerships%20Victoria%20Statement%20-%20February%202009.pdf
21. World Bank and PPIAF database.
22. http://www.ppp.gov.za/Documents/QuarterlyPubs/Feb_2009.pdf
23. Toll roads by the SA National Roads Agency, prisons by the Department of Public Works and Correctional Services, two municipalities (for water projects) and South African National Parks.
24. World Bank and PPIAF database.

25. The PPP unit was originally staffed by five professional staff, but its staffing complement has now grown to approximately 15.
26. http://www.ppp.gov.za/Documents/ppp_legis/Reg16_January2004.pdf
27. http://www.ppp.gov.za/PPPLegislation.html
28. Yescombe, ER, 'Public Private Partnerships: Principles of Policy and Finance', Butterworth-Heinemann (2007), pp. 47–48.
29. World Bank and PPIAF database.
30. See Annex 5 for a detailed case study of the Meghnaghat IPP.
31. Sanghi *et al.*, 'Designing and Using Public–private Partnership Units in Infrastructure: Lessons from Case Studies Around the World', Gridlines Note No. 27, PPIAF (2007). http://www.ppiaf.org/documents/gridlines/27PPP.pdf
32. World Bank and PPIAF database.
33. http://www.bangladeshgateway.org/egovernment/Guideline-BOi.pdf
34. http://www.idcol.org/
35. http://www.bangladesh-bank.org/
36. http://www.iifc.net/
37. Sanghi *et al.* (2007), op. cit.
38. http://mof.gov.bd/en/budget/09_10/ppp/ppp_09_10_en.pdf

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3-i Infrastructure Network, *India Infrastructure Report 2001–08*. http://3inetwork.org/reports/reports1.shtml

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