3. Financing project preparation

3.1. OVERVIEW

The preparation of infrastructure projects often requires intensive work across multiple stages to get from an identified project need or concept through to feasibility evaluation, project structuring, reviews, and approvals, before it becomes procurement-ready.

There is a growing realisation that what is needed is a full lifecycle approach that examines aspects of the project throughout the construction and operations stages, as opposed to an overriding focus solely on asset creation, along with a sharper crystallisation of outcome specifications to be delivered.

Further, many projects require an assessment to determine whether to deliver the project using the PPP model, which calls for the evaluation of additional elements during preparation. These include an analysis of project risks, structuring options for optimal risk allocation and transfer, Value for Money analysis, and level of government support required, along with implications on fiscal costs and contingent liabilities, wider stakeholder engagement and market sounding, and greater rigour in contract documentation.

As a result, project preparation becomes significantly more multi-disciplinary, requiring an array of deep and diverse skills and expertise across technical, economic, social, environmental, and financial aspects. Yet, GCAs mandated to implement infrastructure projects are often not fully equipped with these skillsets and have to source assistance from consulting firms, subject-matter experts, legal firms, academic institutions, and research institutions to prepare projects effectively. This increased complexity and need for access to specialised external expertise leads to an increase in the costs of infrastructure project preparation.

Infrastructure project preparation costs in developing countries typically range from 5-10% of the total project investment, and about 3-5% of project costs in developed countries. Also refer to *Exhibit 3.1*.

Exhibit 3.1 Indicative estimates of project preparation costs (as a % of total project cost)

Source	Range of costs
Global Infrastructure Basel: Unleashing private capital investments for sustainable infrastructure greenfield projects, 2014	3-5% in developed markets, could go up to 10% in frontier markets
United Nations: Catalysing early stage investment, 2011	5%
Global Green Growth Institute: Infrastructure finance in the developing world, 2015	5-10%
World Bank	3-5% in developed economies; 10-12% in emerging economies
InfraCo Africa	10% in small-scale energy projects

These cost figures are only indicative, as project preparation costs vary widely, based on factors such as:

- the project size and complexity;
- the project's development as a standalone project or as part of a wider program;
- if the project is in a single geographic location or across several regions;
- the extent of technical detailing needed;
- the severity of social and environmental impacts;
- the duration of the preparation process; and
- the extent of upstream preparation.

In many instances, capacity-constrained GCAs, especially in EMDEs, are either unfamiliar with the nature of project preparation requirements or lack adequate financing for project preparation. This typically results in projects being taken to procurement without the requisite readiness, which leads to cost and time overruns during implementation.

Establishing adequate ring-fenced resources for financing project preparation is, therefore, yet another critical enabling requirement to effectively implement infrastructure projects. The country-lens analysis suggests that governments have typically addressed financing for project preparation through three streams, as described below:

1. **Dedicated PROJECT DEVELOPMENT FUNDS (PDFs)**
   Many countries have set up project development funds or facilities (PDFs) as dedicated financing vehicles supported by the requisite oversight and staffing for conducting feasibility studies and transaction advisory support for infrastructure projects. Typically, these PDFs are supported with a revolving fund and focus mostly on developing PPP projects, where the costs of project preparation are typically higher. The PDFs also help to set processes and standards in procuring advisors, in developing terms of reference for studies, and in ensuring rigour in feasibility evaluations through multi-stage reviews.
2. **External PROJECT PREPARATION FACILITIES (PPFs)**
   As a response to infrastructure project preparation needs, external project preparation facilities (PPFs) have been created by MDBs as another source
   of financing for governments to prepare bankable infrastructure projects. While some facilities have reached operational maturity and are seeking resource replenishment and expansion, others are in the early stages of development. Such external facilities are also being created by bilateral Development Finance Institutions (DFIs) and global non-government organisations and foundations.
3. **GCA BUDGETS**
   Notwithstanding these dedicated funding avenues through PDFs and PPFs, project preparation financing for infrastructure is dominated by government budgetary allocations to GCAs. Therefore, even as governments seek to create dedicated PDFs and to tap external PPFs, they will still do well to use higher levels of financing from budgetary allocations, while also making their deployments more efficiently.

This chapter addresses the salient aspects of these streams of financing available for project preparation:

- **Project Development Funds (Section 3.1)**
- **Project Preparation Facilities (Section 3.2)**
- **Government budgets (Section 3.3)**

3.2. PROJECT DEVELOPMENT FUNDS

3.2.1. Background

Many governments have set up central Project Development Funds (PDFs) as a means to provide dedicated financing for project preparation and also to counter capacity gaps among GCAs in developing complex infrastructure projects. While projects implemented with public financing are also supported, these funds tend to have a relatively greater focus on developing PPP projects.

At the same time, PDFs are often more than pots of money. They are generally accompanied by institutional mechanisms to create public capacity. PDFs have typically been set up under PPP units, housed in the Ministry of Finance, or under dedicated central agencies mandated to handle project preparation (discussed earlier in *Chapter 2* under *Public institutional capacity*). These agencies are typically mandated to create processes, guidelines, and standards to undertake project development activity and to build capacity.

PDFs can be set up in an array of different forms at the national and sub-national government levels. They can be set up with government funding and can be structured to recover costs (especially for PPP projects, where the costs of project preparation are often recovered from the winning private bidder). They can also be created with a thematic focus (e.g. environmentally-friendly green infrastructure projects, such as renewable energy), or a sectoral focus (a transportation or water and sanitation fund). The table below presents an overview of key design considerations that must be addressed during the establishment and operations of PDFs.

Purpose and role of PDFs	Sector focus – e.g. Transport, energy, social infrastructure Thematic focus – Green projects, projects with climate resilience impacts Coverage of assistance – Upstream enabling policy formulation, OBCs, pre-feasibility, feasibility, PPP transaction advisory, contract management support
Institutional framework for PDFs	Governance and approvals Operating framework and processes for disbursement to implementing agencies Cost recovery framework Guidelines for engaging consultants
Eligibility criteria	Sectors Nature and size of projects Eligible GCAs Project preparation work already undertaken Sharing of project preparation costs by GCAs Project preparation activities for which PDF support can be used Recovery of PDF support
Limits of PDF support	Overall limit of PDF support Limit to individual projects Limits at various stages of project preparation Sector caps, if any
Sources of funding for PDFs	Government budgetary allocation MDB and donor contribution Cost recovery
Risk management	Risk management and monitoring procedures

3.2.2. Guidance

Key elements of the guidance framework under Project Development Funds are summarised below:

A. Clarity of PDF objectives, scope of operation, and interface with GCAs is critical.

B. PDFs should be backed by effective governance, institutional capacity and sustainable financing.

C. Support to project preparation financing for sub-national governments should be institutionalised.

D. Allied mechanisms for project preparation need to be developed alongside PDFs.

A. Clarity of PDF objectives, scope of operation, and interface with GCAs is critical.

For PDFs to be effective, clarity on the strategic objectives underlying their creation, their scope of operation and their interface with GCAs is crucial. Key considerations while setting up PDFs are discussed below:

- **Sectoral and thematic focus:** It may be prudent for governments to direct financing to high priority sectors and projects above a threshold investment scale, especially in the initial years, to achieve better value for money and create the required demonstration effect. For example, Mexico has been able to scale up its toll road program and mass transit program supported by sectoral focused facilities under FONADIN and PROTRAM.
- **Scope of support:** Spelling out the scope and boundaries of project preparation of PDFs is equally critical. For instance, in some cases, access to financing from PDFs is made available only for feasibility studies, and pre-feasibility and outline business case studies are excluded. This creates challenges when GCAs do not have capacity to handle these early-stage preparatory studies. PDFs may need to be designed to provide flexibility to support project preparation activities across the wider spectrum.
- **PPP vs. traditional public procurement:** This study indicates that the majority of PDFs being set up are housed in or administered by PPP units, have been enabled by the country's PPP law (for example, in Kenya and Indonesia), and tend to have a relatively greater focus on projects amenable to the PPP model. It is also important to recognise the limitations in making decisions on financing sources early in the project preparation lifecycle. PDFs should ideally allow for the decision on financing sources to evolve through the course of project preparation if necessary and should remain open to different structures during early stage project development.
- **Voluntary vs. compulsory:** Access to PDFs is typically provided on a voluntary basis, and GCAs that are reluctant to opt for the PPP model of implementation sometimes opt out of project preparation through the PDF. However, the use of PDFs can be incentivised, for instance, by creating clear criteria for budget support based on the rigour of early stage project preparation and the threshold quality of feasibility reports. This will incentivise GCAs to use the PDF route.
- **Approach to handling conflicts:** Two areas deserve attention in terms of potential conflicts of interest. The first one pertains to the linkage of cost recovery of PDFs with project completion. While faster project completion is a legitimate objective to be incentivised, this could sometimes lead to a compromise in project preparation for faster project implementation. Conflicts may also arise when the management of PDFs is entrusted to entities involved in project financing or if the private partner involved in the operation of the PDF also handles downstream project implementation. While care must be taken to avoid such conflicts by design, it may not be possible to eliminate all. Checks and balances, in the form of independent reviews, transparent disclosure by PDFs and GCAs on project preparation activities, and restrictions on private partners involved in project preparation from downstream implementation, should be built into PDF guidelines and enforced diligently.

INDONESIA'S PROJECT DEVELOPMENT FUND

In Indonesia, the Ministry of Finance (MoF) established its own Project Development Facility (PDF) under its Director of Government Support and Infrastructure Financing Management, to assist government contracting agencies in hiring transaction advisors and undertaking feasibility studies and PPP procurement. Since it was set up under the PPP Unit, the PDF activities largely focus on preparing infrastructure projects to be developed using the PPP model.

Indonesia's PDF has generally been used to provide support to mid-stage activities in terms of detailed feasibility studies and subsequent transaction advisory, and so far has not been used for early-stage outline business case preparation and pre-feasibility studies, as these have been financed by GCAs or other institutions, such as BAPPENAS. Additionally, actual project preparation is supported by institutions like PT SMI, a public infrastructure finance institution. Recently, access to funds for project preparation under the PDF has been opened up to other agencies, such as the Indonesia Infrastructure Guarantee Fund (IIGF), in a bid to accelerate the scale and pace of

B. PDFs should be backed by effective governance, institutional capacity and sustainable financing.

PDFs need to be supported by effective institutional mechanisms that are well-governed, adequately staffed and financially sustainable. Key considerations in managing PDFs from an institutional perspective are discussed below:

- **Governance and oversight:** PDFs are typically governed by independent boards that approve project preparation financing requests from GCAs and issue well-laid out guidelines for financing approval. The funds are typically disbursed to a central project development agency or GCAs that are mandated to prepare projects under these guidelines. Procurement practices and guidelines for engaging consultants, experts and transaction advisors are also typically prescribed for the utilisation of funds from the PDF.
- **Institutional models:** An arm's length separation of responsibility needs to be ensured between project preparation financing and actual project preparation. PDFs should be managed like corporatised entities, such that they are responsive and agile to the needs of GCAs and private investors. There are multiple models for institutionalising PDFs and project preparation capacity:
  - *PDFs administered under a PPP unit* within the Ministry of Finance, which operates as a gatekeeper for the approval of funds for project preparation, while actual project preparation (including engaging consultants and transaction advisors and conducting studies) is performed by another central project preparation agency or GCA. This model is prevalent in Indonesia.
  - *PDFs administered under a board or committee,* which also oversees the central agency responsible for project preparation, as is the case in the Philippines.
  - *PDFs administered under an SOE or a development finance institution (DFI),* as in the case of FONADIN in Mexico.
- **Organisation and staffing:** The agency(ies) charged with project preparation must be staffed commensurately. This should include the procurement of technical experts that are well-versed in PPP policy, transaction requirements and contract structures. They also need to be capable of formulating and applying guidelines for engaging consultants and transaction advisors on behalf of line agencies. A good understanding of infrastructure procurement policies and enactments at the national and sub-national levels, including guidelines and regulations governing PPP projects, is also a critical requirement.
- **Sustainable financing:** PDFs need to be financially sustainable and are often set up by governments with support from MDBs. For instance, the PDF in Kenya was set up using World Bank technical assistance, while the Philippines PPP Center was set up with the assistance of the Asian Development Bank (ADB). PDFs are often set up as a revolving fund that supports both conventional and PPP projects, where project development costs are reimbursed by the successful bidder(s). Even where such cost recovery is attempted, PDFs tend to have lower success rates in the early years. Therefore, committed budgetary support, especially in the early years, is crucial to keep the PDF sustainable.

THE PHILIPPINES PPP CENTER AND ITS PROJECT DEVELOPMENT AND MONITORING FACILITY (PDMF)

The Philippines PPP Center

The PPP Center serves as the central coordinating and monitoring agency for all PPP projects in the Philippines. It champions the country's PPP program by enabling implementing agencies in all aspects of project preparation, managing the Project Development and Monitoring Facility (PDMF), providing project advisory and facilitation services, advocating policy reforms to improve the legal and regulatory framework for PPPs and providing technical assistance in project preparation and implementation.

Through Executive Order No. 136, the PPP Center acts as the Secretariat of the PPP Governing Board (PPPGB). The Board is the overall policy-making body for all PPP-related matters, including the administration and management of PDMF. Thereby, PPPGB is responsible for creating an enabling policy and institutional environment for PPPs in the Philippines.

As part of its mandate to further develop PPPs in the country, the PPP Center also undertakes various initiatives to educate and train the implementing agencies on the general principles and processes of PPPs. It conducts trainings and workshops on PPP basics for GCAs and sub-national governments. At present, there is an increasing emphasis on improving the capacities of sub-national governments. The PPP Center supports pre-investment activities through the PDMF to create a pipeline of viable PPP projects.

The Philippines Project Development and Monitoring Facility (PDMF)

The PDMF is a revolving fund created with an investment of US $84[9] million from the Philippines Government and US $18 million from the Australian Government.

PDMF is under the administration and management of the Philippines PPP Center and its funding is an integral part of the PPP Center's operations and at the core of the PPP Center's ability to deliver on its mandate. The aim of setting up the PDMF is to provide funding and facilitate PPP project preparation and monitoring. It provides financing to engage external consultants and transaction advisors to assist implementing agencies in their pre-investment activities for potential PPP projects and develop a pipeline of viable, bankable projects. PDMF can also be tapped by implementing agencies for probity advisory during the bid process, and engagement of independent consultants to monitor the implementation of PPP projects.

Following the approval of assistance by the PDMF Committee for a specific PPP project, the PPP Center sets up a Special Bids Awards Committee, which is tasked with the selection of consultants, and the Project Study Committee/Project Monitoring Committee/Project Implementation Committee, which evaluate the deliverables of consultants and advisors, ensuring quality outputs.

One of the key features of the PDMF is the establishment of three panels of consultants (both international and national firms) that are pre-qualified under ADB procurement guidelines, namely the Panel of Project Preparation and Transaction Advisory Consultants with 22 members, the Panel of Probity Advisors with six members, and the Panel of Independent Consultants with 10 members. ADB procurement guidelines ensure that there is a quick and effective process for pre-qualification and selection of advisors. The actual process of the selection of consultants and transaction advisors is a two-stage process. The first stage comprises of the pre-qualification, selection and retention of a panel of consulting firms under an indefinite delivery contract (IDC) facility for a duration of three years (which may vary each time depending on the discretion of the PPP Center). The second stage of the process is the actual selection of an advisor or consultant from the panel on a competitive basis. The selected consultant is then responsible for pre-feasibility, project preparation and transaction execution; probity advisory; and/or monitoring of project implementation.

9 As of December 31 2018.

C. Support to project preparation financing for sub-national governments should be institutionalised.

The focus on infrastructure development is increasingly moving to sub-national governments. Many countries are now seeing greater participation in infrastructure investment by sub-national governments, vis-à-vis the dominating presence of national governments in this sector from years prior.

This shift in government involvement must be handled with extreme care – where national governments have had relatively deeper experience to build capacity and support project preparation activities, contracting authorities at the sub-national level could have limited resources to prepare bankable projects or even enhance development capabilities. Therefore, it becomes imperative to ensure that contracting authorities at the sub-national level have adequate access to the resources required to prepare projects.

One of the ways to achieve this is for national governments to provide budgetary support by way of grants to sub-national governments for project preparation. Typically, these funds are not ear-marked for preparation activities alone, and are provided for infrastructure development within the state or province as a whole. In this arrangement, it is up to the sub-national government to manage expenditure efficiently, and ensure contracting authorities have access to financing for project preparation.

Alternately, some PPFs that assist sub-national governments have also established dedicated funds to assist project preparation at the sub-national level. For example, the Public-Private Infrastructure Advisory Facility (PPIAF), a multi-donor PPF financed by over 11 multilateral and bilateral donors and housed within the World Bank Group, has a Sub-National Technical Assistance (TA) program, under which PPIAF provides technical assistance activities to sub-national governments by way of capacity development initiatives.

In some countries, sub-national governments have also developed sophisticated mechanisms to address this issue, by way of setting up project preparation funds specific to the state or province.

FACILITIES TO SUPPORT SUB-NATIONAL PROJECT PREPARATION

National interventions

Governments have established national funds to support project preparation and support public sector capacity in sub-national governments. Two examples of such facilities are Brazil's Supporting Fund to Partnerships Structuring (FAEP) and Mexico's National Infrastructure Fund (FONADIN). A unique example covered within the Mexico country case study (see *Appendix A*) is the Government of Mexico's federal mass transit program (PROTRAM), which was created in 2009 within FONADIN, to drive scale and efficiency in the mass transit sector, in line with the national objective of a low-carbon growth plan. Under PROTRAM, facilities for financing preparatory studies and driving investment in mass transit projects were provided to local governments. PROTRAM is funded by national toll road revenues and financed partly by MDB loans from the World Bank and the Inter-American Development Bank. The local governments provide the project plan and request preparatory financing from PROTRAM. The project goes through strict eligibility criteria and superior standards of project appraisal and review, until it is finally approved by the relevant committees in PROTRAM and FONADIN.

Sub-national interventions

Select sub-national governments in India have established project development facilities to support project preparation, especially in the urban infrastructure sector. One unique example is the establishment of the Project Development Grant Fund (PDGF) in the State of Tamil Nadu. The fund has been financed with government assistance and development agencies such as the World Bank, KfW and JICA. The PDGF is used to provide grants to carry out consultancy assignments, to operate and manage resource mobilisation programs, and to implement capacity building, development and training. The Government of Orissa has also established a state level project development fund, in partnership with KfW, to finance project preparation and the development of bankable projects. In addition to funding project feasibility studies, it supports the preparation of city development plans and pre-feasibility studies for infrastructure projects.

D. Allied mechanisms for project preparation need to be developed alongside PDFs.

PDFs do not operate in a stand-alone manner and need to be supported with sustained actions and mechanisms to ensure smooth project implementation. As discussed in *Chapter 2* above, elements of a conducive enabling environment include a favourable policy framework and effective public institutional capacity.

In general, PDFs in most countries have been created as part of a wider enabling mechanism for catalysing PPPs, including the formulation of PPP laws, frameworks for providing Viability Gap Funding (VGF), and for managing fiscal costs and contingent liabilities (FCCL) arising out of government support requirements for PPP projects. Additionally, wider reforms, such as sector-specific policies, tariff reforms, restructuring of state-owned enterprises (SOEs), land management and labour reforms, are a critical requirement to facilitate effective project preparation.

ENABLING FRAMEWORK FOR PPPS IN KENYA – Multiple interventions

The Government of Kenya collaborated with the World Bank in February 2013 under the Infrastructure Finance Public-Private Partnerships (IFPPP) Project to establish a stable, predictable and transparent investment environment, along with a pipeline of finance-worthy projects. The US $40 million program is aimed at three key areas of development: i) enabling environment; ii) project pipeline; and iii) project financing. As of September 2018, the program is supporting over 71 projects at various stages of development. Key features of the enabling framework are summarised below:

- After the enactment of the PPP Law in 2013, the IFPPP strengthened the central PPP Unit and created over 57 PPP nodes[10]. Under the IFPPP Project, hands-on, skill-based and project-based training was offered to strengthen the capacity of the PPP Unit staff and the project teams. Officials could also undertake the APMG's PPP Certification Program[11].
- The Project Facilitation Fund (PFF) was created to support project preparatory studies for PPP projects. The PFF was established as a multi-purpose fund to provide financial assistance to: i) support GCAs in the preparation, appraisal and tendering phases of PPP projects; ii) support activities of the PPP Unit; iii) extend Viability Gap Funding to PPP projects; and iv) provide a source of liquidity to meet contingent liabilities arising from PPP projects.
- The Public Debt Management Office (PDMO), a department within the National Treasury, manages a progressive two-stage Fiscal Commitment and Contingent Liabilities (FCCL) Framework, which is built on both quantitative and qualitative methodologies to evaluate risks arising from PPPs.
- The PPP disclosure portal provides considerable literature on the existing PPP processes and all non-confidential information related to PPP projects, and the PPP Unit is mandated to act as a central repository of PPP projects and undertake continuous monitoring and comparative assessment (ranking) of PPP projects.

[10] A contracting authority that intends to enter into a PPP arrangement with a private party must establish a PPP node, which is headed by the accounting officer of the contracting authority.

[11] The APMG PPP Certification Program is an initiative of the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank (IDB), the Islamic Development Bank (IsDB), the Multilateral Investment Fund (MIF), the World Bank Group and the Public-Private Infrastructure Advisory Facility (PPIAF), to provide infrastructure practitioners with a formal accreditation demonstrating alignment with international PPP good practice.

3.3. PROJECT PREPARATION FACILITIES[12]

3.3.1. Summary

Project Preparation Facilities (PPFs) are a response to address the inadequate availability of a bankable, investment-ready project pipeline in many EMDEs.

PPFs seek to provide financing support to EMDE governments for investing in early stage project preparation and to help them in improving the efficacy of project preparation practices with the eventual goal of reducing time span from project development to financial closure considerably. A number of MDB-led PPFs have been set up with different arrangements and regional focuses. The following are examples of the forms PPFs can take:

- **PPFs that pool resources and are jointly managed:** These include the EU PPP Project Preparation Facility for the Southern Neighborhood (MED 5P), funded by the European Commission and led by the European Investment Bank (EIB), in partnership with the European Bank for Reconstruction and Development (EBRD), the African Development Bank (AfDB), Kreditanstalt für Wiederaufbau (KfW) and the Union for the Mediterranean; and the Arab Financing Facility for Infrastructure (AFFI) Technical Assistance Facility, funded by the World Bank Group (WBG), the Islamic Development Bank (IsDB), the EIB, the International Finance Corporation (IFC) and the Arab Fund for Economic and Social Development (AFESD).
- **Regional, sub-regional or country-focused PPFs:** These include the Inter-American Development Bank's (IADB's) InfraFund, and the New Partnership for Africa's Development Infrastructure Project Preparation Facility (NEPAD-IPPF). The AfDB's Africa50 initiative provides project preparation capacity within a development-oriented, yet commercially-operated innovative entity. The innovativeness of the Africa50 lies in its integrated approach of being a "one-stop shop" which combines early stage project preparation and development work with long-term debt funding.
- **Relatively recent initiatives:** PPFs, including the EBRD's Infrastructure Project Preparation Facility (IPPF), the ADB's Asia Pacific Project Preparation Facility (AP3F) and the World Bank Group's Global Infrastructure Facility (GIF), have been launched relatively recently.

Apart from financing project preparation at different stages of the project preparation lifecycle, including pre-feasibility, feasibility, and design, most PPFs provide technical assistance and capacity building support. PPFs are also diverse in terms of thematic areas, sectoral focus, and geographic scope. They operate in a non-reimbursable mode through grants, or in a reimbursable mode, where a portion of costs are either recovered from governments or from the winning bidder.

FINDINGS FROM A RECENT SURVEY ON MDB-LED PPFS

A survey on PPFs operating under 10 MDBs in May 2018 made the following observations informing the development of the MDB Infrastructure Cooperation Platform's *Guidance Note on PPF Structure and Operations*:

- **An increase in the number of PPF initiatives:** All MDBs surveyed had at least one PPF in operation, and five of them operated multiple PPFs. Over 80% of PPFs had been created after 2015, reflecting the ramp-up of PPFs in recent years.
- **Sustainability and cost recovery:** Eight of the 10 PPFs are funded with a mixture of internally retained earnings and external donor support. Seven of 10 PPFs provided project preparation support on a partially reimbursable model.
- **Support beyond PPPs:** Seven out of 10 PPFs support the preparation of both PPPs and public sector projects.
- **Scale:** An estimated US $600 million has been committed to PPFs across the MDB landscape since 2015, ranging in size from US $7 million to US $107 million. Nearly 200 project preparation initiatives have been launched since 2015 across primary PPFs, supported by over 200 MDB staff, who are typically structured finance and/or PPP specialists. The total value of projects collectively under preparation under the MDB-led PPF initiatives since 2015 is estimated at US $50 billion.

[12] With inputs from the MDB Infrastructure Cooperation Platform's Project Preparation Workstream 'Guidance Note on PPF Structure and Operations' (November 2018), and 'Partnering to build a better world: MDBs' common approaches to supporting infrastructure development', prepared by MDBs for circulation to the G20 Development Working Group and G20 Infrastructure Working Group in September 2015.

3.3.2. Guidance

Key elements of the guidance framework under PPFs are summarised below:

A. A clear alignment between government objectives and PPF offerings is crucial to derive value.

B. Countries in the early stage of infrastructure scale-up should seek support in upstream activities and in improving public investment efficiency.

C. EMDE governments should see PPF support as a means to accelerate local capacity creation.

A. A clear alignment between government objectives and PPF offerings is crucial to derive value.

PPFs address various different facets of project preparation and it is important for governments to align and set clear objectives of their engagement with PPFs early on.

The nature and scope of engagement between PPFs and governments is contingent on the stage of readiness of the country's enabling environment for a ramp-up in infrastructure implementation. For instance, in countries where the enabling environment, in terms of clear policy frameworks and institutional mechanisms (described in *Chapter 2*), is not in place, governments should engage with PPFs to strengthen upstream activities. Similarly, when infrastructure plans and project pipelines are not yet in place, the focus of support should be on articulating a clear infrastructure vision, creating sectoral plans and developing a credible projects pipeline to be taken through the various stages of implementation.

Only when these prerequisites are in place does it become effective for governments to utilise the downstream project preparation support offered by PPFs. Governments may need to make a judicious choice of the PPF with which it wishes to engage, based on the fit of the PPF's service offerings, sector focus, priorities and needs of the government.

PROJECT PREPARATION SUPPORT FROM PPFS: Kigali Bulk Water Supply project

The Kigali Bulk Water Supply project is one of the first PPP projects in water supply in Sub-Saharan Africa. The project was prepared in line with the Government of Rwanda's national plans, including the Economic Development and Poverty Reduction Strategy 2008 (EDPRS) and Vision 2020, with an objective to achieve universal access to water by 2020.

The Government of Rwanda introduced a range of measures to facilitate project planning:

i) the establishment of a specialised institution for managing water supply projects (the Water and Sanitation Corporation Ltd (WASAC);

ii) facilitating close coordination between the Rwanda Development Board (RDB), WASAC and IFC, and private sector stakeholders; and

iii) securing IFC's support as a lead transaction advisor along with the Infrastructure Development Partnership Fund (DevCo)[13] and Public-Private Infrastructure Advisory Facility (PPIAF).

The institutional reforms, departmental coordination and quality in technical assistance were critical enablers of the project's success. The uniqueness of the project (as one of the first PPP projects) and its alignment with the national vision was one of the major reasons for project ownership at the highest levels of government and technical assistance from the IFC.

[13] DevCo is a multi-donor facility managed by IFC and is funded by the Private Infrastructure Development Group (PIDG) with support from the Austrian Development Corporation (ADA), the Austrian Federal Ministry of Finance, the Ministry of Foreign Affairs of the Netherlands (DGIS), the Swedish International Development Cooperation Agency, and the UK Department for International Development (DFID).

B. Countries in the early stage of infrastructure scale-up should seek support in upstream activities and in improving public investment efficiency.

PPFs are often ideally placed to support governments in upstream policy and institutional support, and to advise on regulatory reforms to unlock infrastructure potential. As a strategy, MDB-led PPFs may need to supplement their offer of downstream project preparation support with upstream technical assistance to create a conducive enabling environment for PPPs. Combining upstream policy advice and support to sector reforms with downstream project preparation efforts can help countries to overcome barriers to sustainable infrastructure delivery.

Capacity gaps can constrain EMDE governments in selecting the appropriate methods of project preparation. They can expend considerable efforts, costs and time to develop stand-alone PPP projects, which could then be abandoned and implemented as a traditional public project owing to frustrating delays in tendering it as a PPP. They also require capacity and expertise to design and implement national frameworks for project preparation. Therefore, PPFs focusing on PPP preparation should seek support to make public investment efficient, as an interim step towards the successful implementation of PPPs.

PPFs also ought to support governments in demonstrating the efficacy of PPP frameworks, to optimise value for money for the government on a lifecycle basis, and to facilitate a transition to PPPs and market-led project structures.

UPSTREAM-DOWNSTREAM INTEGRATION: The Public-Private Infrastructure Advisory Facility and Global Infrastructure Facility

The World Bank's Public-Private Infrastructure Advisory Facility (PPIAF) is a global facility for technical assistance grants dedicated to strengthening regulations and institutions that enable sustainable infrastructure with private sector participation. Through its global collaboration platform comprising of donors, EMDE governments, MDB technical partners and private sector advisory partners, the Global Infrastructure Facility (GIF) helps governments to develop well-structured, bankable infrastructure projects and bring them to market, and expands the market for private infrastructure finance in EMDEs.

PPIAF's upstream focus on the enabling environment facilitates GIF's end-to-end support for programs and projects seeking to mobilise private capital. From project inception through to implementation, this programmatic support focuses on improving project outcomes, sustainability, and affordability by: (i) instituting sector and SOE reforms that improve enabling environments; (ii) drawing on specialist experience and best practices to develop and execute transactions; and (iii) harnessing standardisation and knowledge to reduce project risk and the cost of preparation. PPIAF and GIF support the successful delivery of infrastructure investments through a range of products and tools that promote the delivery of specific projects, as well as the scaling-up of investments to program and sector levels. Although the facilities can engage independently, they can offer the greatest impact when deployed together. For example, they may work in parallel when a project transaction requires further policy-level enabling work, or sequentially, where PPIAF can support upstream work before GIF adopts a project for final preparation and procurement.

C. EMDE governments should see PPF support as a means to accelerate local capacity creation.

As the experience of developed economies, such as the United Kingdom and the Republic of Korea, demonstrates, activities and processes leading to effective infrastructure project preparation are resource intensive but need to be pursued continuously over time to produce results.

MDBs have come together under the Infrastructure Cooperation Platform established during the G20 Argentinian Presidency in 2018 to reinforce their role in supporting the global efforts in the preparation and financing of infrastructure investments. The Platform seeks to complement the overarching *G20 Principles for the Infrastructure Project Preparation Phase* and facilitate greater cooperation among MDBs towards effective project preparation in the future.

Engaging with MDB-led PPFs provides EMDE governments with an opportunity to accelerate local capacity creation for infrastructure project preparation. By working together on an integrated program to tackle critical enabling interventions, along with select demonstration PPP project preparation initiatives, EMDE governments can potentially accelerate local capacity creation, and signal their commitment to investors, citizens and other stakeholders. For instance, the ADB and other partners, including the Government of Australia, have played a key role in the formation of the Philippines PPP Center and the Project Development and Monitoring Facility (PDMF). Similar collaborative efforts with MDBs have seen the creation of enabling PPP frameworks in several other countries.

Further, EMDE governments should better synergise technical assistance (TA) funding streams of MDBs with those available from PPFs. Often, the value of TA funding streams is multiple times the amounts accessed from PPFs, and unlocking these synergies will be critical to deliver impact from MDB assistance. When used well, MDB support can help EMDE governments to absorb and apply leading practices in a contextually relevant manner, to nurture a conducive enabling environment and to create requisite capacities to drive their infrastructure agenda more effectively.

UPSTREAM SUPPORT TO PPP INSTITUTIONS AND DEVELOPING LOCAL CAPACITY: The World Bank's Infrastructure Finance and PPP (IFPPP) Project

Early involvement of the World Bank through the IFPPP project was instrumental in building upstream support to PPPs in Kenya. Under the project, the Government of Kenya created a legal and institutional framework to support PPPs and, specifically, the Ministry of Transport and Infrastructure in its first-mover PPP program for the road sector through financing the project preparation. The PPP Act 2013 and the guidelines developed under the IFPPP project served as guidance for the transaction advisors, as well as the Kenya National Highway Authority (KeNHA) in undertaking project studies and review for Nairobi-Nakararu (one of the first-mover projects). The preparatory studies for the project were financed using the World Bank facility, which helped KeNHA hire quality transaction advisors for undertaking the project studies. The project also supported the strengthening of the internal capacity of public officials in KeNHA and the PPP Unit through specific hands-on skill-based and project-based training.

3.4. GOVERNMENT BUDGETS

3.4.1. Summary

Notwithstanding the growth of PDFs set up by governments (both national and sub-national) and PPFs set up by MDBs, a dominant portion of project preparation is financed by public spending from budgetary allocations by GCAs and line departments[14]. This is likely to still be the case in the foreseeable future. Yet, very often, granular information on spending and outcomes of project preparation from such budgetary allocations is difficult to obtain in most countries.

Given the scale of spending on project preparation that occurs using this route, governments should pay attention to improve the efficacy and impact of budgetary spending by GCAs and line departments on project preparation. This section provides guidance on the key principles and actions that governments could take in this regard.

3.4.2. Guidance

Key elements of the guidance framework under government budgets are summarised below:

A. Direct a portion of budgets to project preparation and track expenditure.

B. Require GCAs to report and disclose spending on project preparation as a separate line item.

C. Set and enforce guidelines with which GCAs should comply to access financing for capital spending.

A. Direct a portion of budgets to project preparation and track expenditure.

Often, governments do not have the ability to track infrastructure project preparation costs, as these are not reported under traceable line items in the budget. Therefore, governments should specifically track budgets and spending for infrastructure project preparation by creating line items in their budgets for expenditure incurred on project preparation. Incorporating clear traceable budgetary line items helps create the foundation for consolidating and reporting expenditure incurred on project preparation, and in establishing a baseline for project preparation expenditures. This will also help governments to track and direct budgetary allocation commensurate with the scale of future infrastructure spending.

[14] For example, in Africa, approximately 20-30% of total project preparation funding is through PPFs, whereas this figure is significantly lower in many high-income countries.

SEPARATE BUDGET FACILITY FOR PROJECT PREPARATION – Budget Facility for Infrastructure, South Africa

The Budget Facility for Infrastructure (BFI) is a budgetary reform initiated by the National Treasury to address the weaknesses in project preparation and the delivery of large infrastructure projects in South Africa. The BFI serves as a financing facility that is fully integrated into the national budget system. The facility is established and managed jointly by the National Treasury, the Presidential Infrastructure Coordinating Commission (PICC) secretariat, and the Departments of Planning, Monitoring and Evaluation (DPME) and Economic Development (EDD). The facility has also established the Joint Technical Committee (JTC), comprised of senior officials from the National Treasury, the PICC secretariat and the DPME, which manages the detailed technical assessment process. The facility provides specific information on the funds utilised towards project preparation and financing and ensures that fiscal resources are committed in a transparent manner.

For the financial year FY 2018-19, the BFI received 64 large infrastructure project submissions and an estimated funding requirement of US $10 billion. Of these, 38 projects that met submission requirements were assessed for their Value for Money, socioeconomic rationale and readiness to implement.

B. Require GCAs to report and disclose spending on project preparation as a separate line item.

The next step is for GCAs to report and disclose project preparation spending annually, with the infrastructure spending plan and actual capital expenditure incurred reported on a periodic basis. This way, trends in spending on project preparation can be tracked in a consolidated manner by policy-makers and officials involved in infrastructure development. This will also help to build the case for stepping up project preparation financing commensurate with the scale of infrastructure spending targets and project preparation needs.

C. Set and enforce guidelines with which GCAs should comply to access financing for capital spending.

Very often, GCA capital budgets are approved with little concern for the efficacy for project development costs. Governments ought to formulate and enforce guidelines for handling various stages of project preparation and back this up with a multi-stage review process during the course of project preparation. By making compliance to these guidelines a necessary condition for access to capital budgets, and by creating multi-level reviews by independent and outside agencies and experts, governments can potentially nudge GCAs into improving the rigour and standards in the project development process.

GOVERNMENT BUDGETARY FUNDS ACCESSED THROUGH CLEARLY ESTABLISHED PROCEDURES – The case of Chile's National Fund for Regional Development (FNDR)

The Government of Chile's FNDR serves as a sustainable source of project preparatory funding for sub-national governments. The FNDR is a separate fund created to channel budgetary funds to sub-national government (especially local government) entities for project preparation and implementation financing. It is managed by the Subsecretaría de Desarrollo Regional (SUBDERE) of the Ministry of the Interior and allows regional governments to prioritise investments. FNDR pools in governments' budgetary financing and has been supplemented by multilateral assistance.

The FNDR is a systematic process for allocating funds to municipal governments based on objective criteria for resource allocation. Funds are allocated between regions following a formula that includes the institutional complexity of the regional government, size of services offered, volume of investments etc. The FNDR lays out specific guidelines and eligibility criteria for project selection for pre-investment funding, clear procedures for the allocation of funds across sectors and programs, and the methodology for distributing the resources across the regions. For example, only the projects which have been approved as Socially Recommended (RS) or those which have a positive Economic Technical Analysis Results (RATE) score by the competent authorities will be supported under the FNDR facility. The project preparatory support includes financing of the pre-feasibility, feasibility and technical studies, as well as capacity building and training assistance for sub-national government staff. The country's annual budget law captures the funds allocated and utilised for specific purposes under FNDR.