

Public-private Partnership in Infrastructure and Poverty Reduction: The Public-Private Infrastructure Advisory Facility Experience

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Eleven years ago in Warsaw, the Polish Government embarked on its privatization program. The then-minister of privatization called a group of private-sector people together and stated, "Last year Poland stood on the edge of a precipice. This year we have taken a giant step away from the edge." Privatizing its national industries was not an easy road for Poland, but Poland has indeed made a remarkable recovery.

1. Infrastructure and Growth

There is a very clear link between infrastructure and growth. In particular, the quality of a country's infrastructure has a significant impact on individual productivity, the cost and competitiveness of its enterprises, the level and efficiency of investment in the economy, overall employment, and export earnings. There is a clear and immediate link between infrastructure and the living standard achieved, particularly for the poorest sector of the population. Increased access to communications technology, for instance, can put remote villages in touch with markets and health services. Reliable access to energy can reduce the amount of unproductive time that people spend looking for fuel. Reliable sources of light can make it possible for children to do homework in the evenings, thereby improving their education. In addition, transport facilities can provide easier and cheaper ways to get goods to market. Lastly, in water and waste management, the most immediate impact of good quality, reliable water is to reduce the incidence of debilitating diseases. In India alone, where the Public-Private Infrastructure Advisory Facility (PPIAF) has been working, more than 500,000 children under the age of three years die every year from water-borne diseases as a result of poor quality water.

The traditional approach to infrastructure provision has often failed to deliver needed services or has had only a limited impact on the poorest members of society. Developing countries have invested about 4 percent of national output in infrastructure, about \$250 million annually, but worldwide 1 billion people lack adequate access to clean water and about 2 billion lack sanitation and electric power. The real problem in the traditional approach stems from the failure of public monopolies, which have delivered only limited

access and poor service to the poorest. Higher-income households often consume the subsidized services—power, water, and transport—provided by state monopolies, effectively disenfranchising the poor.

At a recent meeting in East Africa, a number of governments and nongovernmental organizations (NGOs) noted that less than 2 percent of the population in eastern and southern Africa's rural sectors have access to electric power. Even in urban areas, only 6 percent have access to the grid. South America offers a different example. In Chile, where the private sector has been allowed to compete and provide services on a least-cost (subsidy) basis, the country has seen remarkable improvement in the provision of electric power to poor and rural areas: about 76 percent of the population is now plugged into the grid.

If the poor are not provided with services through the main channels, they face very costly alternatives to obtain basic services. Evidence shows, for example, that the price paid by the poor to purchase water from informal vendors can be 20 times as high as the price for piped water.

The promise of private involvement is the focus of PPIAF. In particular, it concentrates on how to link privately provided basic services to poverty alleviation efforts. Throughout the world, including developing countries, governments are re-examining their role in the provision of infrastructure services and are becoming facilitators and regulators rather than providers of those services. Where privatization of utilities is done properly, private involvement can increase access to management expertise and capital. Competition either *in* the market or *for* the market can lead to more innovation, reduced cost, and enhanced consumer responsiveness. Over the past decade, private sector investment in infrastructure projects has increased twelve-fold. The bulk of that increase has been in telecommunications and power, followed by investments in water and sewage management. The latter is an area in which researchers are now seeing a stronger interest from private sector investors.

2. PPIAF: Providing Support to Increase Private Involvement in Infrastructure

PPIAF, established in 1999, is chartered to help developing countries reduce poverty and achieve sustainable development by facilitating private involvement in infrastructure services. Its donors include the Asian Development Bank, Canada, France, Germany, Japan, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom, the United Nations Development Programme, and the World Bank Group.¹ PPIAF's essential focus is to channel technical assistance to governments in developing countries on strategies and measures to tap the full potential of private involvement in infrastructure. It approves grant funds in the amount of about \$17 million per year to provide technical assistance to governments. It also identifies, disseminates, and promotes best practices on matters related to private involvement in infrastructure in developing countries.

¹ This list reflects the donor group as of 2002.

PPIAF's activities cover five principal areas:

- *Infrastructure development strategies:* Outputs such as country framework reports, technical reports, and diagnostic reviews, intended to guide governments on options for expanding private sector involvement in infrastructure. Includes national, subnational and sectoral studies within a country.
- *Consensus building:* Outputs such as in-country workshops and seminars aimed at building consensus among stakeholders for appropriate policy, regulatory, and institutional reforms.
- *Policy, regulatory, and institutional reforms:* Outputs such as technical studies that provide advice on the design and implementation of specific reforms.
- *Capacity building:* Outputs such as regulatory training and forums, aimed at building capacity in the design and execution of private infrastructure arrangements and in the regulation of private service providers.
- *Global best practice:* Outputs such as international and regional conferences and case studies that focus on the identification, promotion, and dissemination of best practice to the international community in general, rather than to a specific country.

Since its launch in 1999,² PPIAF has approved over \$44 million in grants for 197 activities in 65 developing countries.³ In the East Asia region, PPIAF has approved 37 activities and for the South Asia region, 28 activities.

PPIAF has helped several countries develop infrastructure strategies, including country framework reports for India, the Philippines, Viet Nam, Cambodia, Nepal, and Bangladesh. An example of PPIAF support for capacity building is the creation of the South Asia Forum for Infrastructure Regulation (SAFIR), which provides training on infrastructure regulation and reform for regional regulators. PPIAF also supports consensus-building initiatives such as the development of a communications strategy to promote rural power sector reform in the Philippines.

As part of the dissemination of best practice, PPIAF sponsored a conference in London in 2000 which looked specifically at how pro-poor solutions could be built into private sector decisions. Specific considerations identified at the conference included early attention to market structures; avoiding exclusivity in service provision that unnecessarily squeezes out would-be private sector providers; the importance and greater efficiency of small-scale solutions to the problems of delivering basic services to the poor; the need for flexibility in design standards; and, importantly, the early involvement of NGOs and local community groups to make sure that private services provided are in line with community needs.

² The figures cited here are as of 2002.

³ For an example, in Lagos, Nigeria, PPIAF provides consultants who study the country's legal and regulatory regime for a large water concession.