

# **Organizations Enabling Public Private Partnerships: An Organization Field Approach**

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## **About the Paper**

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## Abstract

The use of Public Private Partnerships (PPPS) for infrastructure development is now a major part of the global solution to infrastructure development. However, ensuring these projects deliver on the promise of benefits that accrue from combining private initiative and public oversight has been particularly challenging. We argue that a variety of both public and private organizations have emerged and are being used in varying combinations in efforts to ensure the successful development and operation of PPPs. This paper employs the concept of organization field to illustrate various constellations of organizations that initiate, develop, and govern infrastructure PPPs. We begin by describing the challenges confronting PPP governance and the need for these networks of organizations, and then add the concept of organizational fields as a theoretical lens that helps us to understand the various forces that shape and surround these networks. After reviewing a small number of examples of specific national / provincial fields, we identify several dimensions affecting the field-level characteristics that distinguish different countries.

## **Background**

### **Increasing the sustainability of PPP projects**

The pivotal role of civil infrastructure in enhancing public health and accelerating economic growth has been widely acknowledged in the literature (Estache, 2004). It thus remains a central part of improvement initiatives in both developed and developing countries. Although responsibility for infrastructure development has alternated between private and public provision over the past century, in recent time it has largely been the responsibility of the public sector.

The last two decades have seen significant changes in the modes of government intervention in many developed countries. Reforms in countries like Great Britain and New Zealand have been at the forefront of this movement, largely driven by two broad factors: perceived public sector inefficiencies, and the ascendance of liberal economic ideology (Salamon, 2002). Changes have broadly involved a reduction in the role of government or, more accurately, a change in the functions it performs, and greater private sector involvement (Hood, 1991; Kaul, 1997; Osborne & Gaebler, 1992; Peters & Pierre, 2002; Rhodes, 1996; Salamon, 2002). For infrastructure development this has meant a move toward increased reliance on Public Private Partnerships (PPPs) that involve private companies in the financing and provision of infrastructure. In most countries these PPP arrangements have been aimed at overcoming two broad public sector constraints: (i) a lack of public capital; and (ii) a lack of public sector capacity – the resources and specialized expertise to develop, manage, and operate infrastructure assets (Bovaird, 2004; Kumaraswamy & Zhang, 2001).

The 1990's saw proliferation of PPPs in both developed and developing countries, totaling almost \$755 billion in private investment across nearly 2,500 private infrastructure projects globally in developing countries alone (Harris, 2003)<sup>i</sup>. However, after peaking in 1999, private investment in infrastructure fell off dramatically at the beginning of the first decade of the 21st century, only recently returning to its former level. A number of reasons have been put forward for this downturn, including highly publicized cases of public opposition to private provision and large numbers of contract renegotiations and cancellations (Guasch, Laffont, & Straub, 2002).

These pervasive failures of infrastructure PPPs in recent years (Guasch et al., 2002) illustrate the need to address four challenges: (i) market failures associated with private infrastructure provision (rooted in the natural monopoly characteristics and externalities of infrastructure) (Goldberg, 1976; Mody, 1996; Savas, 2000); (ii) agency failures relating to the limited capacity of public entities; (iii) perceived legitimacy issues surrounding private provision of public infrastructure; and (vi) government opportunism stemming from the fact that infrastructure is plagued by what has been called the “obsolescing bargain” —once the facility is completed and in operation, the private developer loses much of its bargaining power in subsequent negotiations over tariffs or other matters (Ramamurti & Doh, 2004; Woodhouse, 2005).

Because of these and related problems, current levels of private investment in infrastructure are insufficient to address the growing global needs (Gil & Beckman, 2008). This shortfall has been exacerbated by the recent global financial crisis, which has seriously curtailed the availability of private financing.<sup>ii</sup> If PPPs are to play a part in the global infrastructure solution, the sustainability of PPP arrangements clearly needs to be addressed.

A significant amount of work on increasing PPP effectiveness and sustainability has focused on the constraints from the private perspective, stressing the limits employing private incentives to overcome public problems. A number of scholars however have recently highlighted the critical role that the public sector plays in ensuring PPP success (Estache & Serebrisky, 2004; Rhodes, 1996; Van Slyke, 2003). For instance, based on a review of the World Bank's experience with infrastructure PPPs, Harris proposes that

... if private provision is to be sustainable and to benefit consumers of infrastructure services, governments will have to address many of the problems overlooked in the initial rush towards private participation (Harris, 2003: vii).

Rather than alleviating a deficit in the institutional capacity of the public sector, the use of PPPs actually depends for its success on the development of a variety of new types of capacity from governments. As Dutz et al. (2006) propose:

This shift from traditional public sector methods places new demands on government agencies. They need the capacity to design projects with a package of risks and incentives that makes them attractive to the private sector. They need to be able to assess the cost to taxpayers, often harder than for traditional projects because of the long-term and often uncertain nature of government commitments. They need contract management skills to oversee these arrangements over the life of the contract. And they need advocacy and outreach skills to build consensus on the role of PPPs and to develop a broad program across different sectors and levels of government. (Dutz et al, 2006: 1)

This assertion makes it clear that ensuring the success of PPP projects goes beyond successfully governing the projects that have been developed; indeed, the recent history of PPPs seems to suggest that some projects are flawed from the outset (Klijn & Teisman, 2000). Of critical importance are the choices made in deciding which projects to pursue, and developing these projects in a way that make them attractive to private investors while still protecting the interest of users and tax-payers in general, including securing legitimacy and curtailing corruption. Moreover, actions are required that do not only focus on the success of single PPP projects in isolation, but rather aim to sustain the wider portfolio of PPP projects, the PPP program.

The global recognition of these challenges presented in both developing and governing infrastructure PPPs has led to the emergence of a variety of new organizational forms internationally. These organizations, in varying ways, attempt to enable the development and continued operation of PPPs, for the benefit of public, private, and civic actors. Moreover, to be successful, these organizations need to be combined in varying constellations of field configurations. The remainder of this paper describes this collection of new forms and illustrates some of the combinations which have been assembled in varying international contexts.

### **Identifying typical types of “PPP enabling organizations”**

The first to emerge were *Public Regulators*, organizations focused on regulating the performance of the private providers after the contracts were awarded. These agencies have often been set up to be independent from the executive branch, thereby seeking autonomy, transparency, and accountability (Andres, Gausch, Diop, & Azumendi, 2007).<sup>iii</sup> Their optimal structuring has been widely debated in the literature, specifically the trade-off between

centralized versus decentralized agencies, and sector-specific versus multi-sector agencies (see for instance Laffont, 2005). For contemporary PPPs the form of regulator is highly dependent on the type of arrangement regulated. The formal independent regulator model was developed specifically to address sectors that faced large-scale privatizations (such as energy and telecoms). More recent Greenfield PPP projects have seen the regulatory function residing within the Line Agency which “owns” the project (not in a separate entity). To achieve independence in regulation, many governments have made use of an auditor (such as the Auditor General in Australia and South Africa) or non-public regulators in addition to the line-agency regulatory body. In general, the public regulatory bodies address the issue of agency failure and the need for improved legitimacy

*Non-public regulators* emerged in support of public regulators. This group of actors includes private consultants, technical specialists, such as academic institutions or experts, and nongovernmental organizations (NGOs). Tremolet (2007) has divided this type of service into two broad groups: (i) “advisory outsourcing” bodies are external advisors providing input to regulatory decision-makers which they are not obliged to follow<sup>iv</sup>, in contrast to (ii) “binding outsourcing” groups whose recommendations must be heeded. Clearly the motive underlying the latter is curbing the discretion of public regulators, or increasing their legitimacy, while the former is more generally aimed at providing specialist input to decision makers. A number of advantages have been proposed in support of the use of non-public regulators. Since regulatory workflow can be very cyclical in nature (Eberhard, 2007), with major regulatory reviews occurring only every few years, it is difficult for public agencies to retain qualified staff throughout. Regulatory outsourcing therefore provides regulating agencies with highly skilled resources at a lower cost (due to economies of scale for service providers)<sup>v</sup>, while increasing

organizational flexibility. In addition, it also improves the legitimacy of regulatory bodies by fostering regulatory independence (Trémolet, 2007). Contemporary examples of non-public regulators include the “probity auditor” in use in Australia, and the “fairness advisor” which is used in British Columbia (Canada).

The use of non-public service providers has been expanded by the introduction of *Transaction Advisors*. These organizations are private service providers who assist public agencies in the formulation and negotiation of PPP arrangements. In general they play a strictly advisory role, assisting governments to overcome technical capacity shortfalls when developing PPPs. Their focus is specifically on setting up the initial “transaction” by developing the project concept, managing the tender process, and guiding the contract formation. These types of organizations operate primarily to increase the capacity of the public agencies to manage PPP programs.

*PPP Units* (sometimes referred to as “PPP Coordination Agencies”) are a more recent addition to the PPP enablement spectrum. Although the concept of PPP Unit is not new, research into these public sector organizations has only recently emerged. These agencies have been established as governments realized the difficulty of consistently identifying, setting up, and managing PPP relationships. Generally the Units aim to improve the sustainability of PPP arrangements by: (i) undertaking research and disseminating PPP information and best practices, (ii) setting policy and proposing legislation on PPPs, (iii) pro-actively identifying projects and developing them, (iv) providing a consultancy service to other public agencies when engaging in PPPs, (v) funding PPP studies or project development, (vi) playing a role in the monitoring (regulation) of PPP contracts, and (vii) approving which projects are undertaken or, secondarily, giving advice to decision makers in the approval process. In their study of eight PPP Units,

Farrugia et al (2008) identified two broad types of agencies: (i) “Review Bodies” are primarily responsible for reviewing project business plans and providing recommendations to decision makers; (ii) “Full Service Agencies” perform review services but, in addition, take on pro-active roles to develop the PPP market, providing consulting services to service agencies and, in some cases, supplying capital for proposed projects. PPP Units are an attempt to address virtually all of the challenges confronting PPP projects, including market and agency failures, legitimacy, and attempt to increase the stability of governments allowing them to serve as reliable partners.

An interesting recent trend is the creation of private and non-profit *Advocacy Associations* that emerge as private infrastructure providers and other proponents of PPPs band together to form organizations for collective action. These associations specifically aim to develop the local PPP market, and can take both informal and more formal (and permanent) forms. The development of the Tirurpur water supply project in India is an example of a temporary advocacy organization, where a group of Textile manufacturers came together to presented an unsolicited bid to the state government. The project was aimed at implementing a PPP to develop a water system that would solve the water supply problems of the specific textile factories involved. More formal associations focus on local advocacy, as is the case of the Slovak PPP association. This association represents the interests of more than 40 private companies, and is tasked with creating favorable conditions for the development and implementation of PPP projects in Slovakia. Advocacy Associations focus primarily on the problems of increasing stakeholder participation and transparency, thus enhancing legitimacy.

A final, but significant type of PPP enabling organization consists of a variety of *Local, Regional and Multinational Development Agencies* that assist public sectors in emerging markets. These include trans-national actors such as the Bretton-Woods organizations (World

Bank, IMF, ADB, IADB, etc.) who have been at the forefront of promoting private participation in developing countries. These Regional and Multinational agencies have taken leading roles in supporting governments in initiating--often choosing which projects to pursue--developing, and sustaining PPP infrastructure projects, through varying levels of direct involvement (advice, funding, or even taking on some of these roles themselves). Not only have they provided invaluable assistance to governments lacking the necessary expertise and experience in contracting private providers, but in addition they have attempted to constrain opportunistic behavior of both private and public actors by bringing international influence networks to bear. Another mode of intervention is the involvement of local developing agencies. Often a product of multinational development assistance, local development agencies are governmental organizations mandated to initiate and develop major infrastructure projects on behalf of the government. With the growth in popularity of PPPs, many local development agencies have responded by including PPP project development as part of their mandates both locally and regionally (Viljoen, 2006).<sup>vi</sup> The Development Agencies address issues of both market and agency failures.

### **Assessing the combined use of PPP Enabling Organizations**

While it is clear that a variety of enabling organizations have emerged in the last two decades to assist organizations to address the challenges faced by infrastructure PPPs, as noted, most of them address only a subset of the problems confronted. Thus, it appears that these organizations do not ordinarily confront these challenges in isolation, but rather work together to collectively enable and sustain PPP projects. For this reason, we think understanding will be advanced by considering how these organizations function in combination, including exploring

how these combinations are shaped by their institutional environments. By “institutional” we mean the elements that create shared meanings and controls thereby providing order to social action. These elements include regulatory and legal frameworks, norms and value systems, and cultural elements and beliefs (Scott, 1995, 2008).

### **Organizational fields as a theoretical lens**

The remainder of this paper seeks to develop this approach by drawing on the notion of organizational fields, as found within institutional theory. DiMaggio and Powell (1983: 148) define an organizational field as “those organizations that, in the aggregate constitute a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services and products.” This is very congenial to Scott and Meyer’s (1983, 1991) concept of a “societal sector,” which includes both organizations in a given domain delivering similar service or products, as well as the other organizations that “critically influence their performance,” stressing functional interrelation over geographical proximity. While DiMaggio and Powell focus on the ties (reflected in aspects of “connectedness” and structural equivalence), and mechanisms of influence operating between the organizations in a field Scott and Meyer focus attention on the structural characteristics of the field itself and their impact on organization characteristics.

Scott et al., (2000) identify three salient *components* that undergird organizational fields: *actors*, including both types of roles for individuals and types of organizations, *logics*, and *governance arrangements*. More recently Hoffmann and Ventresca (2002) have expanded this by identifying two additional field elements: *intermediary institutions*, and *local sense-making activities*.

Together these components both constrain and enable action within fields, and thereby shape the behavior and characteristics of organizational participants (Campbell, 2004; DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Scott & Meyer, 1983, 1991). The concept of a field is an “empirical trace” (Hoffman & Ventresca, 2002) that is helpful because it defines the boundaries within which these shaping processes (such as competition, influence, coordination and innovation) take place (DiMaggio, 1991).

The use of the field concept is of specific relevance to the present examination of PPP enabling organizations, as it provides a way of considering these organizations in combination and in interaction with their institutional contexts. We build on the five components identified above as foundation for exploring the fields in which these organizations are located.

### **Three levels of PPP fields**

Although enabling organizations participate in a number of organizational fields, we believe fields at three levels are of particular significance: (i) the local field within which specific PPP projects are carried out, (ii) the state or federal field within which the enabling organizations operate, and (iii) the wider transnational PPP field that spans national contexts.<sup>vii</sup>

#### **Local project field**

At the most basic level, PPP enabling organizations are involved in developing and sustaining specific PPP projects in their project locale. At this level the interests of local participants and affected parties are more visible, and therefore the local field is dominated by this broad group of actors, which, in addition to the types of PPP enabling organizations described above, include:

- *End users* are all the local citizens that will make use of the PPP assets once they are constructed, whether they pay for the privilege or not (e.g, in projects based on shadow tolls or direct subsidies).
- *Local stakeholders* consist of actors that are in any way affected (both positively and negatively) by the PPP project under concern. This would include local land-owners, residents, and local tax payers, where impacts range from environmental and social effects, to employment opportunities, and even tax implications (where projects might be funded through local tax measures).
- Stakeholder interests will often be represented by *non-governmental organizations* (NGOs) or groups mobilized through *local social movement organizations*.
- *Local governmental organizations* include all sub-national/state governmental organizations that affect the work of the public regulatory agencies having specific jurisdiction over the project implementation. In many cases PPP projects will not be subject to local regulatory approvals because they will fall under the jurisdiction of national or state line agencies (such as ministries of transportation, health or education) as described in the following section. However, most PPP projects are implemented in coordination with local government agencies including local municipalities, water boards, and health agencies. Obviously these organizations are even more salient in projects that are implemented solely at a local level (such as municipal PPPs).
- *Local trade unions* are often important players in the local PPP field. Such organizations have historically been quite vocal in the PPP debate on both sides of

the spectrum: on the one hand public sector unions have argued against private involvement in infrastructure, while private sector unions have seen PPPs as a way to increase employment opportunities for their members.

### **National / State level field**

PPP enabling organizations generally operate at a national level in most countries; this is sometimes narrowed to states in a federalized system. Although organizations occasionally focus on a single infrastructure sector (transportation, water, etc.), the organizational field spans all these sectors at the nation/state level. At this level PPP enabling organizations are joined by the following diverse group of salient actors / organizations:

- *Governmental agencies* include all bodies within the nation state that play a role, have a stake, or are impacted by the PPP projects under concern, in addition to the PPP enabling organizations. Most important, this includes the line agencies or departments that initiate and take responsibility for these projects. In addition, various other departments are involved in providing project approvals, including cases where overall project approval is centralized under departments such as the ministry of finance.
- *Private for-profit firms* include those having influence on the PPP projects themselves (including developers, lenders, financiers, designers, contractors, and operators), and those that are indirectly involved with current projects (such as various service providers) or hope to participate in future projects.
- *Local normative organizations* provide input to PPP projects based on concern for values such as environmental protection, health standards, and equity

considerations. These include research and academic organizations and professional associations.

- *National NGOs* includes advocacy (non-profit) organizations who seek to stimulate the PPP market and increase deal flow, such as those found in Canada, the US, and Australia. To a lesser extent, various other national NGOs play a part in shaping the national PPP field on issues such as employment, fairness, and sustainability.
- *National trade unions* are the higher level equivalents of the local unions discussed above.

### **Transnational PPP governance field**

In addition to the local and national fields that PPP enabling organizations operate in, they also form part of a wider transnational field of organizations that together form the global infrastructure PPP market. We prefer the term transnational rather than global to indicate that this field does not necessarily include all nations, but rather those that have an active PPP market.

In addition to the enabling organizations themselves, the primary actors in this field are:

- *International consulting firms* supply international experts that work at multiple levels, including the local level, and serve to convey information and best-practices through professional networks.
- *International infrastructure design, construction, and development firms* (often connected to the for-profit firms in the local PPP field) work on PPP projects in a variety of different countries, and bring with them the technical, financial and

negotiating skills and experience needed to execute the PPP assignment.

Ironically enough, these actors use their specialized skills and experience both to benefit governments (ensuring they get a first-class development) and to exploit them (through aggressive contract negotiations and renegotiations).

- *International NGO's* are very active at the trans-national level, applying normative controls through mechanisms such as “naming and shaming” campaigns via the media, voluntary audits and peer controls (Djelic & Sahlin-Andersson, 2006). They are often activated by their local counterparts to participate in PPP developments.
- *Professional associations and research and academic institutions* also apply cognitive framework and normative controls through standard setting, educational programs and professional forums for information sharing.

### **Other field components**

The above discussion highlights the primary types of *actors* (or organization archetypes) that are found in the three fields within which PPP enabling organizations are located. However, our examination of these fields can also be elaborated by utilizing the four other field elements identified earlier: governance arrangements, institutional logics, intermediaries, and local sense-making activities.

*Governance arrangements* may be subdivided into those relying primarily on (i) regulatory controls, based on the use of formal authority backed by sanctions, and (ii) normative controls, based on the exercise of influence stemming from shared values and actors who elicit compliance based on moral, obligatory, and prescriptive arguments (Scott 2008). No fully

legitimate regulatory organizations operate at the transnational level, but the multi-national and regional development agencies, such as the World Bank described above, do control important financial sanctions and exercise some suasion based on normative claims. International NGOs and transnational professional associations employ primarily normative influence, as they attempt to set standards and promulgate best practices related to their areas of expertise.

Organizations operating at the national and state levels, by contrast, include governmental actors—political leaders and agency executives—who employ regulatory powers based on occupancy in positions of authority backed by the legitimate exercise of coercive power. These organizations are joined by—often, opposed by—a variety of NGOs who challenge and attempt to influence their exercise of control. And, at the local level, we find the same types of actors, local governance organizations and NGOs, and, in addition, social movements that arise in reaction to the project—some in support, others in opposition.

Projects operating under PPP arrangements entail an effort to create a partnership among types of organizations operating with quite dissimilar *institutional logics* (Friedland & Alford, 1991). Institutional logics “are the cognitive maps, the belief systems carried by participants in the field to guide and give meaning to their activities” (Scott et al., 2000, 20). Public leaders are highly sensitive to the election cycle and often concentrate on short-term objectives. They attend to shared beliefs and public sentiments, and most attempt to comply with widely-shared norms regarding their legitimate role. Government agency officials stress conformity to rules and procedures and often emphasize transparency and the use of structures fostering wide information sharing and participation from affected parties. These agencies typically are highly specialized, so that officials are likely to concentrate on a relatively narrow set of concerns to the exclusion of broader performance objectives. This narrowness of focus is also likely to occur

among NGOs and professional associations. By contrast, for-profit firms are likely to embrace market-efficiency logics and to be guided by the standards and operating procedures largely drawn from professional and craft sources. Developers must attend closely to cost-containment measures, protecting the financial interests of owners and shareholders. Clearly, PPP structures are complex coalitions of partners with divergent identities guided by diverse interests following varying and often contradictory institutional logics.

A majority of the new types of actors in the PPP field act as *intermediaries* among the main players. Between the primary organizations—government agencies, project firms, local stakeholders and end users—a growing collection of information brokers, advisors, consultants, and watch-dog organizations have arisen. The most prominent intermediaries at the transnational level are the regional and multi-lateral development agencies. These organizations affect diffusion of practice within PPP fields in a number of ways: using normative influence to shape player decisions; employing coercive pressure by threatening to withhold development assistance; and sponsoring advisory projects to foster capacity building in local areas. When we talk about the changing “structure” of a field, we refer not only to more regularized patterns of interaction among the main players but also to growth in the number and importance of organizations whose principal function is to oversee, steer and mediate the transactions among the primary players.

Finally, *local sense-making activities* arise in the local project field as the diverse players converge around the focal project and begin to interact, often for the first time. Some of the players have come from distant locations and bring with them beliefs and practices shared from earlier projects. Others, at the national and the local level, may be involved in such international construction projects for the first time and must find ways to interpret unfamiliar demands and

events and develop modes of reacting to them. All groups must adapt their expectations and behavior to accommodate these varying interests. Each type of organization confronts novel situations and unknown types of actors. Hence, sense-making is the order of the day as organizations in these novel fields strive to understand the situation they are in and what course of action to pursue (Weick, 1995; Weick, Sutcliffe and Obstfeld, 2005). The confluence and interaction of these diverse players results in, at best, a pragmatic fusion of institutional logics as organizations adapt to their new partners and novel circumstances. At its worst, serious misunderstandings, disappointment, and conflicts may arise among the host government, the private provider and the end-users, as illustrated by the failure of the Cochabamba water concession in Bolivia. Such public failures can have transnational repercussions, shaping user resistance to private water supply projects globally (Davis, 2005).

### **Comparing PPP enabling fields**

The preceding discussion presents the kinds of actors and processes that may characterize the organizational fields that surround PPP enabling organizations. In surveying the current scene, however, we can identify significant differences internationally in the composition of, in particular, the National / State level field. For this reason we present three contemporary examples of State level fields in this section. In addition, we attempt to make preliminary sense of the variety of present-day field compositions by drawing on previous work by Scott and others (Scott & Meyer, 1991; Scott, Ruef, Mendel, & Caronna, 2000; Wooten and Hoffman, 2008) on organizational field characteristics.

### **Selected examples of PPP enabling fields**

To illuminate the divergence of PPP enabling fields, we present three contemporary examples: South Africa, the Province of British Columbia in Canada, and the Republic of Korea. Although they are not archetypes of typical field compositions, these cases provide a useful indication of variations in the types of players and configurations to be found in diverse regions.

#### **South Africa**

The South African context has seven principal types of organizational actors in the national PPP enablement field. The first can be referred to as the *sponsoring agency*, and is the government department or agency that contracts for the private infrastructure provision. The sponsoring agency is responsible for identifying and developing the project concept, carrying out the feasibility study, conducting the procurement phase, and obtaining Treasury approval after each step. After contract signature the sponsoring agency is also responsible for monitoring and regulating performance, dispute resolution, and reporting to the Auditor-General. In this way they act as the public regulator of the PPP project.

Due to the complexity of the project development process, sponsoring agencies generally appoint *transaction advisors* to carry out the project preparation and approval process on their behalf. These advisors most often comprise a team of private consultants that include legal, financial, and technical experts. Many of these consultants have direct (in the case of an international consulting firm) or indirect (by way of personal or professional ties with consultants in other countries) links with international consultancy organizations, thereby enabling them to draw in best practices from abroad.

Less common than the use of transaction advisors, sponsoring agencies can also make use of *regulatory consultants* in performing their functions during the project term (after contract

award). The aim of using these consultants is almost exclusively aimed at overcoming skill and capacity shortages that the Line Agency might face in executing their regulatory functions.

A fourth actor is the *PPP Unit* located within National Treasury, responsible for controlling progress of the PPP project development through four distinct approval steps (Levinsohn & Reardon, 2007). In this way the Unit is focused on ensuring the quality of PPPs and protecting the larger government against imprudent commitments made by sponsoring agencies. In addition it provides advice to agencies interested in PPPs, mostly through periodic publications and their internationally commended PPP guides. The PPP unit is focused exclusively on the pre-award process. Final approval of all PPP transactions is conferred by *National Treasury*, based on the recommendation provided by the PPP Unit.

External auditing of the sponsoring agency's oversight activities during the project term falls to the *Auditor-General* of South Africa. The Auditor-General is an independent government<sup>viii</sup> entity focused on safeguarding the public interest in governmental expenses. It can therefore be viewed as "an independent auditor acting on behalf of taxpayers, and auditing and reporting on the activities of all government institutions" (Treasury, 2004). The Auditor-General reviews the PPP project's annual progress reports, and conducts various audits as required.

Finally, local *development agencies* play a role in helping sponsoring agencies to identify and develop possible infrastructure projects. The two most prominent of these public players are the Development Bank of South Africa (DBSA) and the Industrial Development Corporation (IDC). These agencies have however played a decreasing role in PPP projects since PPP authority was centralized in the PPP Unit. Multinational development agencies (such as USAID)

were instrumental in the initial surge of PPPs during the late 1990's, but are no longer active in this field.

The above description does not hold for sectors that have been fully privatized, most notably the communications and energy sectors. Private participation in these sectors is regulated by dedicated public regulatory agencies, such as the National Energy Regulator (NERSA) and the Independent Communication Authority (ICASA). In addition, the South Africa National Road Agency (SANRAL) and TRANSNET handle all transactions that involve road, commercial rail, port and pipeline infrastructure, without the oversight of the PPP Unit (Farrugia et al., 2008).

A graphic representation of the South African field is presented in figure 1.

[Figure 1 about here]

### **British Columbia, Canada**

In comparison with the South African case, PPPs are viewed as much more central to infrastructure delivery in the Canadian province of British Columbia. All public infrastructure investment initiatives with an estimated project value over \$50 million are required to pass through a PPP qualification review, with normal procurement only followed if there is a compelling reason not to undertake the project as a PPP. In addition, projects between \$20 million and \$50 million are generally also evaluated for PPP appropriateness. Again, we can identify six main actors in this field.

Project concepts are developed by various governmental *sponsoring agencies*. These agencies are the governmental agents who ultimately sign the PPP contract, and they therefore retain the main responsibility for project oversight and regulation throughout the life of the project.

Sponsoring agencies are at liberty to appoint any private consultants for the PPP qualification process (or business case development), but generally they make use of the provincial *PPP Unit*, Partnerships BC (PBC), for this task. The reason for preferring PBC over private consultants is that PBC is responsible for evaluating all business case evaluations and making a recommendation (based on Value for Money and Affordability assessments) to the *Ministry of Finance* for final approval. Involving PBC early on in the process improves the chances of eventual project approval. Sponsoring agencies also often retain PBC during the options analysis phase and subsequent competitive procurement processes. However, the extent of PBC services utilized depends greatly on the expertise and experience of the sponsoring agency<sup>ix</sup>: their role can range from completely managing the PPP development process to taking only an advisory role. PBC sometimes provides input to sponsoring agencies during the construction phase as well, but is generally not involved during the operational period.

It should be emphasized that PBC, a fully publicly owned crown corporation, takes on a much more pro-active role in developing the local PPP market, than is the case with the South African PPP unit. They actively identify possible PPP projects, as well as serve as a center of PPP excellence, distributing best-practice information to governmental departments through positional papers, recommended procedures, and policy input. PBC's forward-leaning stance to PPP development is partially motivated by the organization being financed through a fee for service funding structure. Some critics have suggested that this incentive, coupled with significant influence on the PPP approval process, might lead to more PPPs being approved than is optimal. The Government of British Columbia has attempted to combat this possible agency dilemma by providing strict oversight by the Ministry of Finance. In addition, PBC contracts with independent *private consultants* on most projects to ensure impartiality: each project

includes a “conflict of interest consultant” and a “fairness advisor.” PBC also employs legal, financial or technical consultants to supplement their in-house expertise where needed. Private consultants can therefore either be employed by the Sponsoring Agencies directly (where PBC has not been appointed for management of advisory services) or (more commonly) as consultants to PBC.

Two players at a national level complement these provincial actors. First, the Canadian federal government has also been involved in developing the PPP market through the establishment of a *federal PPP Unit*, known as “PPP Canada Incorporated” (GoC, 2009). The office is primarily tasked with managing and investing the Government of Canada’s \$1.25 billion Public-Private Partnerships Fund that supports “innovative projects that provide an alternative to traditional government infrastructure procurement” (Building-Canada, 2009). In addition, the office advises the Government of Canada on the execution of PPP projects, and requires that PPPs be considered in connection with other federal infrastructure programs. The focus of the Federal PPP office is therefore exclusively on federal PPP projects.

Second, the *Canadian Council for Public-Private Partnerships* (CCPPP) also operates at a national level in Canada. The council primarily focuses on promoting and increasing the success of PPPs through industry wide research and information disseminating via various publications.<sup>x</sup> In addition it facilitates knowledge sharing and networking by way of annual conferences, regional PPP events, and focused workshops. Lastly the CCPPP acts as a normative force by recognizing leading projects through their Canadian Council National Awards for Public-Private Partnerships (CCPPP, 2009).

A graphic representation of the British Columbia field is presented in figure 2.

[Figure 2 about here]

### **Republic of Korea**

A final case for consideration is the Republic of Korea (or South Korea) where extensive PPP activity has taken place since 1994 (most recently under the Build-Transfer-Lease program) (Nam, 2006). Korea presents an interesting alternative to the other two cases because its public PPP enabling organizations are highly centralized and insulated, with little involvement of private or non-governmental agents. We can identify five main players in this field, all governmental agencies.

The responsibility for overseeing Korea's PPP program is concentrated in the *Ministry of Strategy and Finance* (MOSF). The MOSF is responsible for developing PPP policy and establishing the Korean government's comprehensive PPP investment plans, through the creation of an annual PPP plan and guidelines document<sup>xi</sup>. The MOSF controls the quality of projects delivered by Line Agencies through the review of quarterly PPP implementation status reports. Most of the decisions on large PPP deals are delegated to a specialized entity within the MOSF, the Project Review Committee (Kim, 2009). This Committee generally is staffed by high ranking governmental officials, but may also include private consultants as "technical experts" (Ibid).

The primary work of PPP project implementation is undertaken by various Korean *Sponsoring agencies*, (such as the Ministry of Land, Transportation and Maritime Affairs in the case of a national transport infrastructure project). The relevant agency undertakes the necessary work to develop the project, including conducting a project feasibility study and Value for Money appraisal, undertaking the procurement process, identifying the preferred bidder, approving the engineering plan, and confirming project completion. Although private consultants

are sometimes employed by line agencies, their use is much less prevalent than in the other two cases.<sup>xii</sup>

Instead of using consultants, Line Agencies often request technical assistance from the *Public and Private Infrastructure Investment Management Center* (PIMAC) during the execution of their project development tasks. The general reluctance to involve private consultants in the project development process means that PIMAC plays a much larger supporting and execution role on specific projects than in the other cases discussed. PIMAC is the “central government’s primary administrative entity for interfacing with the private sector on infrastructure investment projects” (Nam, 2009). The role of PIMAC includes reviewing project proposals, helping to negotiate concession contracts and mediating disputes. In addition, PIMAC offers educational workshops to increase private sector interest in infrastructure finance and conducts research on the infrastructure market (Kim, 2009). To assist under-skilled local governmental authorities, PIMAC specifically works to protect the interests of government in their dealings with private sector concessionaires (Nam, 2009).

The *public auditor* of Korea is known as the “Board of Audit & Inspection” (BAI). This agency works to make “sure that administrative practices and services of government and public bodies are fair, reasonable and appropriate” (BAI, 2009). The BAI provides independent oversight of the PPP process, auditing the practices (specifically in terms of procurement) of the line agency.

A final player in the Korean PPP enabling field is the *Korean Infrastructure Credit Guarantee Fund* (KICGF), which provides funding guarantees to Private Providers. Guarantees can take the form of a term loan structured to protect the project’s senior debt service (available upon demand), or a revenue guarantee loan. These guarantees serve to minimize the risks borne

by the Concessionaire, thereby developing the local PPP market by making investment more attractive to private providers (Ibid). The KICGF partly matches our definition of a local development agency, but their program development activities are limited to these financial measures.

A graphic representation of the Korean field is presented in figure 3.

[Figure 3 about here]

### **Other examples**

Four other cases can help us further distinguish differences between national fields, and are therefore worthwhile mentioning here:

As mentioned earlier, in many developing countries the development of PPP projects are heavily dominated by Multinational Development Agencies. The formation of the Maputo water Concession in *Mozambique* is a case in point. Not only was the project concept proposed by the World Bank, the subsequent procurement and appointment process was dominated by Bank employees and selected private consultants (Zandamela, 2001). In addition, the Bank executed the restructuring of the governmental organizations that oversaw the PPP, creating the public asset holder and the public regulator. Consultants (mostly employed directly by the World Bank) were heavily relied upon to assist these public organizations in managing- the PPP contract.

The *Chilean* case is also of interest due to the centrality of decision making and strong political commitment for pursuing PPPs. The Minister of Public works has historically taken responsibility for the implementation of the program, with only partial scrutiny by the Minister of Finance and the public auditor (“Contraloría General”). The result has been a rapid, but somewhat controversial history of PPP development (culminating in a series of corruption and

irregularity trials). Other features of the program are a substantial reliance on international consultants in project development, and low accountability and transparency of PPP policy formulation and project selection.

The *Indian* case is of interest due to the highly fragmented and decentralized nature of the program. Reflective of Indian bureaucracy in general, a multitude of governmental organizations provide alternative routes for project implementation in an uncoordinated manner. These organizations include PPP Units at the national and state level, as well as within some sector specific-bodies. In addition, a variety of local development agencies (most remnants of earlier project financing initiatives) litter the landscape of project identification and development.

A final example is the *Chinese* PPP field, where two board tiers of projects can be identified: (i) interprovincial projects or projects that are of national significance, requiring major financial investments, and (ii) provincial or local projects that are of much more modest scale (generally involving urban infrastructure). Approval of both types of projects is centralized under the National Development and Reform Commission (NDRC),<sup>xiii</sup> but nationally significant projects require approval at the State Council level as well (GoPRC, 1995). The responsibility for project development and procurement falls to the applicable authority (local, provincial, or department within the central government) for both types of projects (GoPRC, 2004, 2005). Consultants are more prevalent than in the Korean case, but afforded limited responsibility, mostly acting in a supporting role.

### **Towards a classification of PPP field characteristics**

The examples presented above illustrate the diversity of application in contemporary PPP enabling fields. Although an in-depth classification of present day examples is beyond the scope

of this paper, we can identify several broad dimensions along which the case examples (and selected others) vary.

Scott and Meyer (1983; 1991) were among the first to identify some of the ways in which one field differs from another, and these efforts have multiplied over time (e.g., Campbell, Hollingsworth and Lindberg 1991; Scott et al 2000; Whitley 1999). A number of broad dimensions along which fields vary have been identified, including the extent of centralization of decision-making, the mixture of public and private sector players, and the number of levels (e.g., local, state, national, transnational) at which actors operate. Reflecting on the case of PPP, we propose that fields appear to vary on at least five salient dimensions:

- *Centralization of governance* entail whether the responsibility for project enablement and governance is located within a central agency, or duplicated within various line agencies. The Korean and British Columbia cases present examples of highly centralized enablement, while the Indian case is much more decentralized.
- *Sectoral consistency* represents the extent to which PPP enablement is consistent across different infrastructure sectors (transportation, energy, telecoms, and water and sewerage). In many countries, (South Africa and India for example) the transportation sector has taken the lead in developing PPPs (due to the ease of applying direct user-fees), leading to a separated PPP program in these sectors. In other countries (such as British Columbia and Korea in our sample) PPP programs have been developed as a single coherent initiative across all sectors.
- *Involvement of private enablers* signifies the extent to which governmental agents make use of private consultants for the PPP enablement process. Extreme cases in

our sample are Korea on the one hand (where there is very limited use of private consultants), and India on the other (where governmental agents are very reliant on private providers).<sup>xiv</sup>

- *Influence of Multinational Development Agencies* entails the extent to which Multinational Development Agencies like the World Bank and IFC have an influence on both the choice of PPP projects, and the way they are developed. A higher level of influence (such as Mozambique in our sample and to a lesser extent India) generally signifies a lower level of governmental capacity within the host government, with the MDAs often stepping in to ensure project success and protect both local and private interests.
- *Dominant Logics* refer to the types of institutional logics which guide the emergence and use of enabling organizations. They appear to vary from an emphasis on control to a concern for empowerment. The “logic of control” stresses the need for central government control of private service provision, specifically to limit market failures associated with infrastructure provision – natural monopoly characteristics and significant externalities (Goldberg, 1976; Mody, 1996; Savas, 2000). This logic has also been the driving force behind measures to ensure control of governmental discretion, both the discretion of local government (applied through central government) and central government (applied through independent auditors and measures of transparency and accountability). In the spectrum of enabling organizations, this “logic of control” has led to the emergence of public regulators, private consultants that provide “binding outsourcing” services (Trémolet, 2007), and PPP Units that function as

“review bodies” (Farrugia et al., 2008). A contrary “logic of empowerment” views the challenge of PPP sustainability as a process of increasing the ability of the players involved in the service delivery relationship. Most notably this logic has been the driving force behind initiatives aimed at empowering public actors, but it has also led to governmental programs focused on developing the environment for private participation.<sup>xv</sup>

### **Concluding Statement**

In this study we have investigated the emergence of a collection of diverse organizations designed to enable and govern Public Private Partnership projects for infrastructure development. We have observed that these enablement and governing responsibilities are not restricted to a single governmental body, but rather are shared between networks of public and non-public organizations. These organizational networks are being used in varying combinations in efforts to address multiple challenges that PPPs face internationally. We utilize the concept of organizational fields as a theoretical lens to help us investigate these combinations of organizations in a comparative way. Based on a review of a small number of cases, we identified five dimensions that can be used to distinguish field-level differences between cases.

The work to date is no more than an initial step towards a more complete understanding of these networks of enabling organizations. More work is needed to better document the range of networks that have developed, unearth the reasons why these fields differ along the dimensions identified, and more importantly, to assess what the impacts of these differences might be on PPP success at both a project and a program level.

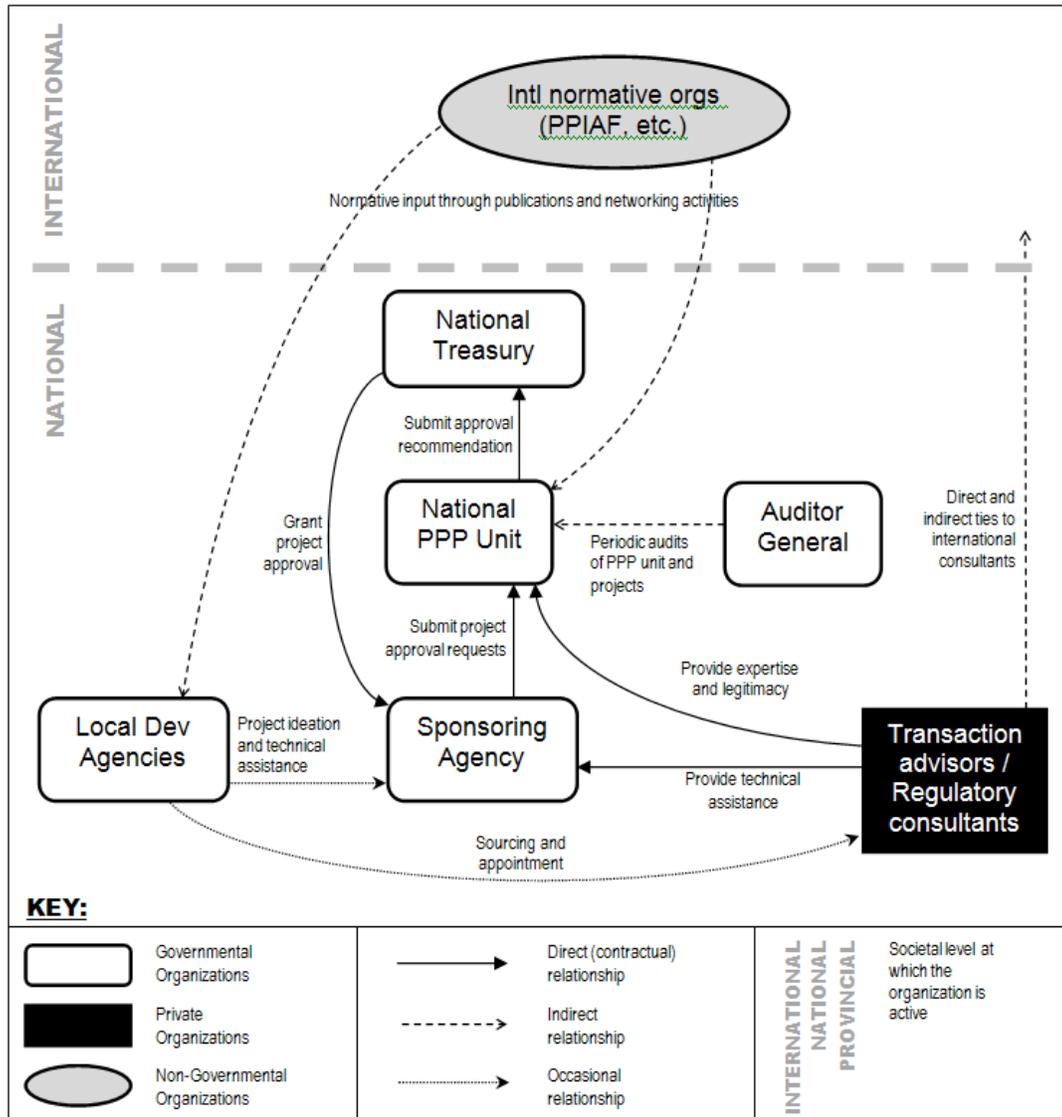


Figure 1 - Graphic representation of South African PPP enabling field

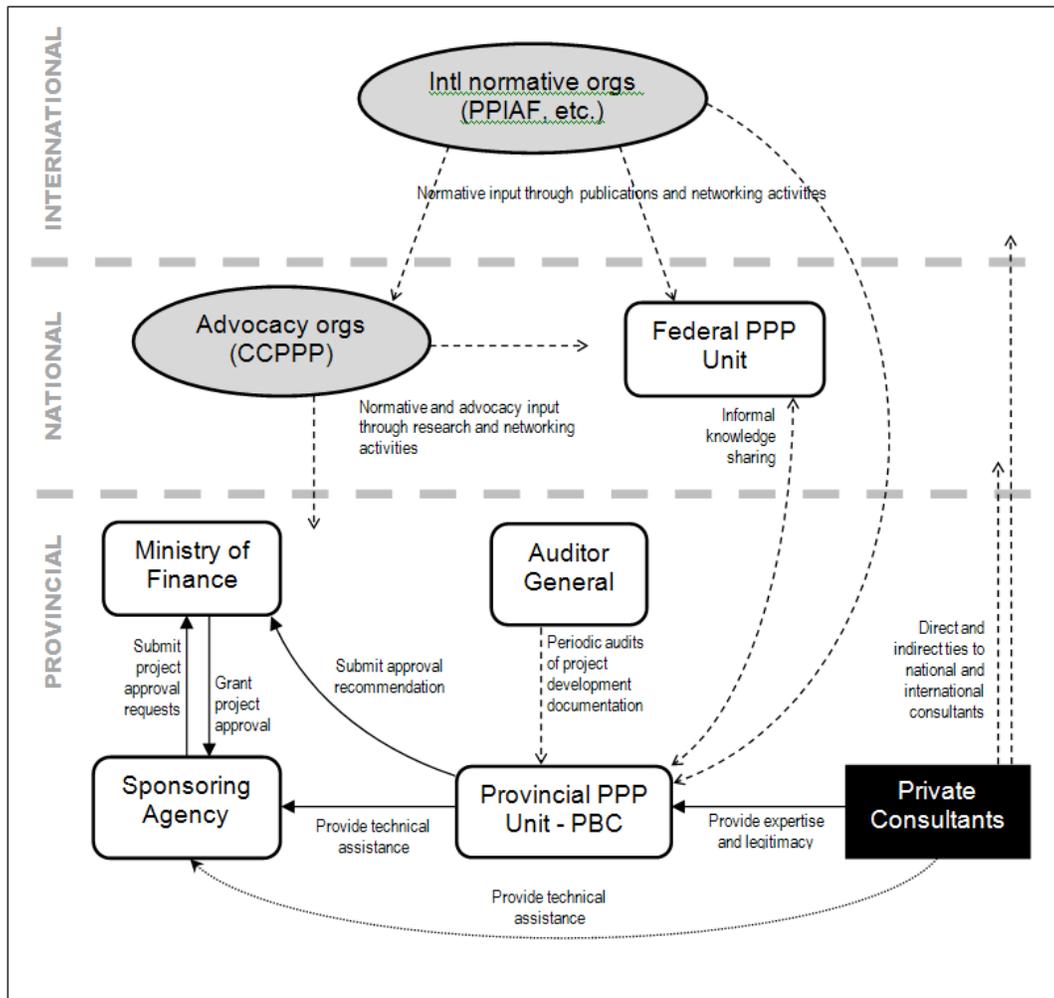


Figure 2 - Graphic representation of British Columbian (Canada) PPP enabling field

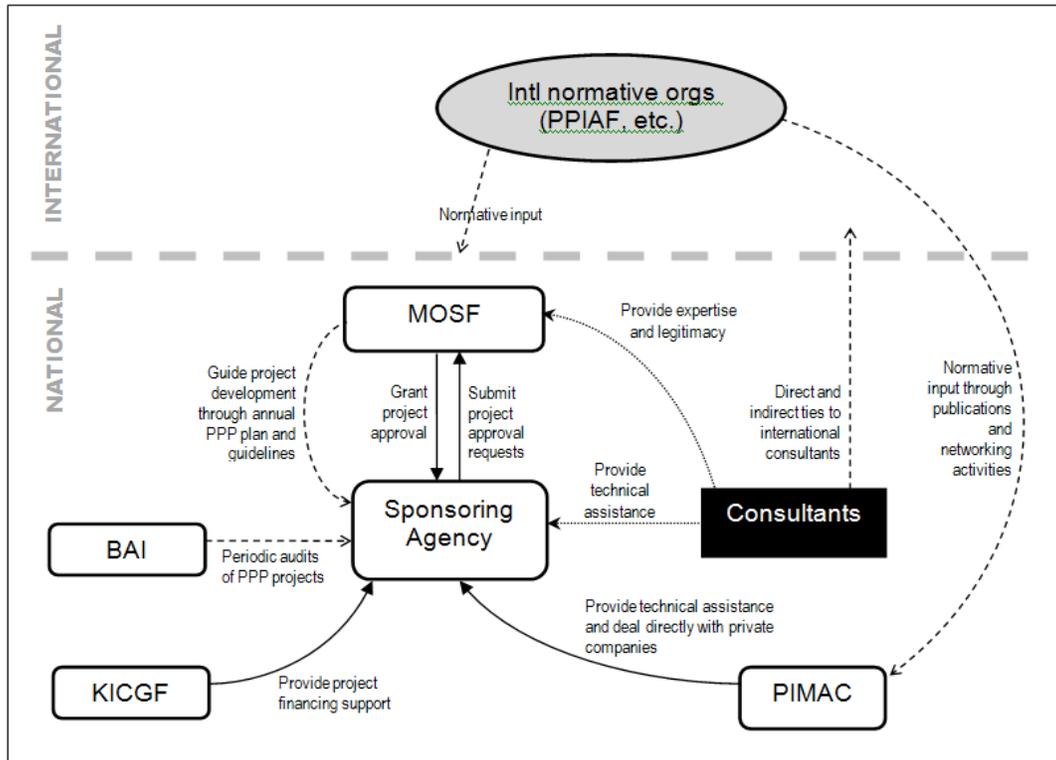


Figure 3 - Graphic representation of Korean PPP enabling field

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*Footnotes*

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- i Izaguirre (2004) estimates that the private sector accounted for more than 20 percent of all infrastructure investment in the period 2001–03.
- ii The recent inability of concessionaires to raise sufficient private financing has led to a number of contentious governmental “bailouts” of PPP projects. Examples include the Port Mann bridge and highway project now being undertaken as a Design-Build arrangement (rather than the originally planned Design-Build-Operate-Maintain arrangement), and a number of controversial cases of governmental assistance to distressed PFI projects in the United Kingdom (Milmo et al, 2009).
- iii However, recent PPPs developments have seen regulatory functions commonly being delivered by specialized workgroups within the line agencies responsible for the project. In many of these cases an independent body (such as the Auditor General in Australia or South Africa) will audit the actions of these workgroups.
- iv It should be noted that even in cases where recommendations are strictly of an advisory nature, public disclosure of such information will pressurize decision-makers into complying therewith.
- v In many cases however, highly skilled consultants might come at such a premium that their cost offsets the gains from economies of scale. This is specifically the case where the consultants are not local to the developing country.
- vi Local development agencies are specifically tasked with project funding in many countries (for example the Korean Infrastructure Credit Guarantee Fund). It is interesting to note

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that in India a number of local development agencies (examples include the Tamil Nadu Urban Development Fund and the Tamil Nadu Water Investment Company) were initially solely focused on providing project funding, but have recently had to move their focus to the provision of technical assistance due to international and Federal funding drying up. These organizations now act very much like PPP Units.

vii See Scott, Levitt & Orr (2008) for a related discussion of fields operating at varying levels on global infrastructure projects. Defining field boundaries is a heuristic exercise in which boundaries vary depending on the problems of interest to the analyst.

viii To ensure independence from the Legislative and Executive branches of Government, the Auditor-General does not operate under ministerial supervision, but rather reports directly to Parliament.

ix Agencies that have had more experience with PPPs (such as in Transportation) mostly only require advisory services, while agencies that are newer to PPPs (such as in Health Care) would employ PBC to manage the whole process.

x Publications sponsored by CCPPP include informative newsletters, research papers, case studies, guidelines, opinion surveys and national inventories on key public-private partnership subjects (CCPPP, 2009).

xi “The purpose of this plan and guidelines is to weigh up national and regional infrastructure priorities, provide administrative rules governing the PFI program, and announce any adjustments in public support to be provided for new projects under the program. Although it does not carry the enforceability of law, the annual plan provides guidelines to which all levels

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of government have shown commitment when implementing their relevant PPP project” (Nam, 2009).

<sup>xii</sup> Two reasons are mentioned for the small role that private consultants play: (i) the high levels of technical competence within the public organizations we mention here, and (ii) a general resistance within the Korean government to involve private entities in public decision making.

<sup>xiii</sup> The NDRC approval ensures that “the project complies with the maintenance of economic security and rational exploitation of resources, protection of the ecological environment, optimization of the layout of industry, protection of the public interest and prevention of monopoly” (GoPRC, 2005)..

<sup>xiv</sup> This is clear from the fact that, among our sample of cases, the use of private providers is by far the most coordinated in India. The Government of India set up a shortlist of pre-qualified transaction advisors in 2007 to streamline and coordinate their use on PPP projects. This simplifies the process for procuring and appointing advisors, and also serves to ensure the quality and consistency of advisory services (as agencies are required to report back on the performance of advisors). The current shortlist of eleven advisors includes five international consulting firms, two local development agencies, three Indian consulting consortiums, and one multinational development agency (the International Finance Corporation or IFC). As remuneration is often tied to project success, transaction advisors will generally also provide initial feasibility advice to sponsor agencies before proceeding into project development. In this way advisors provide an additional check on unwise commitments made by sponsoring agencies.

<sup>xv</sup> This is partly akin to the governance logics identified by Drori (2006): the management logic concerned with matters of efficiency and accountability, and participatory logic that stresses participation and empowerment.