



PPP – **6** Points on Partnership

Training Session 4: Institutions and Contract Management

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Institutions Matter in PPP Planning and Implementation

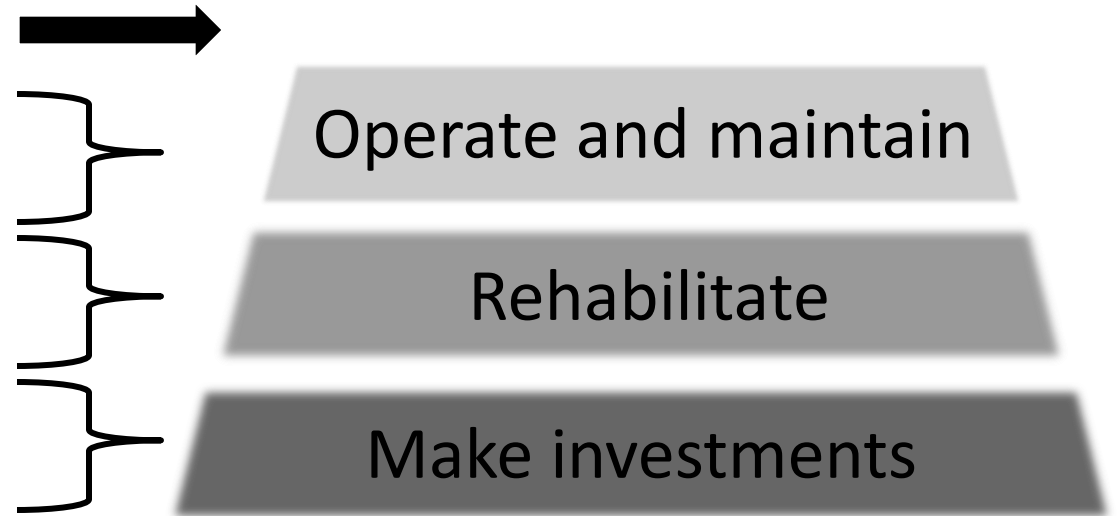
- Setting out policy
- 1.** Set the PPP objective
 - 2.** Appoint reform champion
 - 3.** Decide on market structure
- Managing the relationship
- 4.** Risk allocation: tariff adjustments
 - 5.** Monitoring performance & resolving conflict
 - 6.** Setting up support structures

1 Policy translates to responsibilities; translates to costs; translates to decisions on who will bear them....

Governments want:

- Sustainable
- Quality services
- for All

...translates to responsibilities



Customers

Private

2 Assign authority to a transaction manager & decision 'pacer': consults, coordinates and champions

Develop the best arrangement for the needs and circumstances

Identify and coordinate analytical work required

Find a suitable firm and obtain the best offer

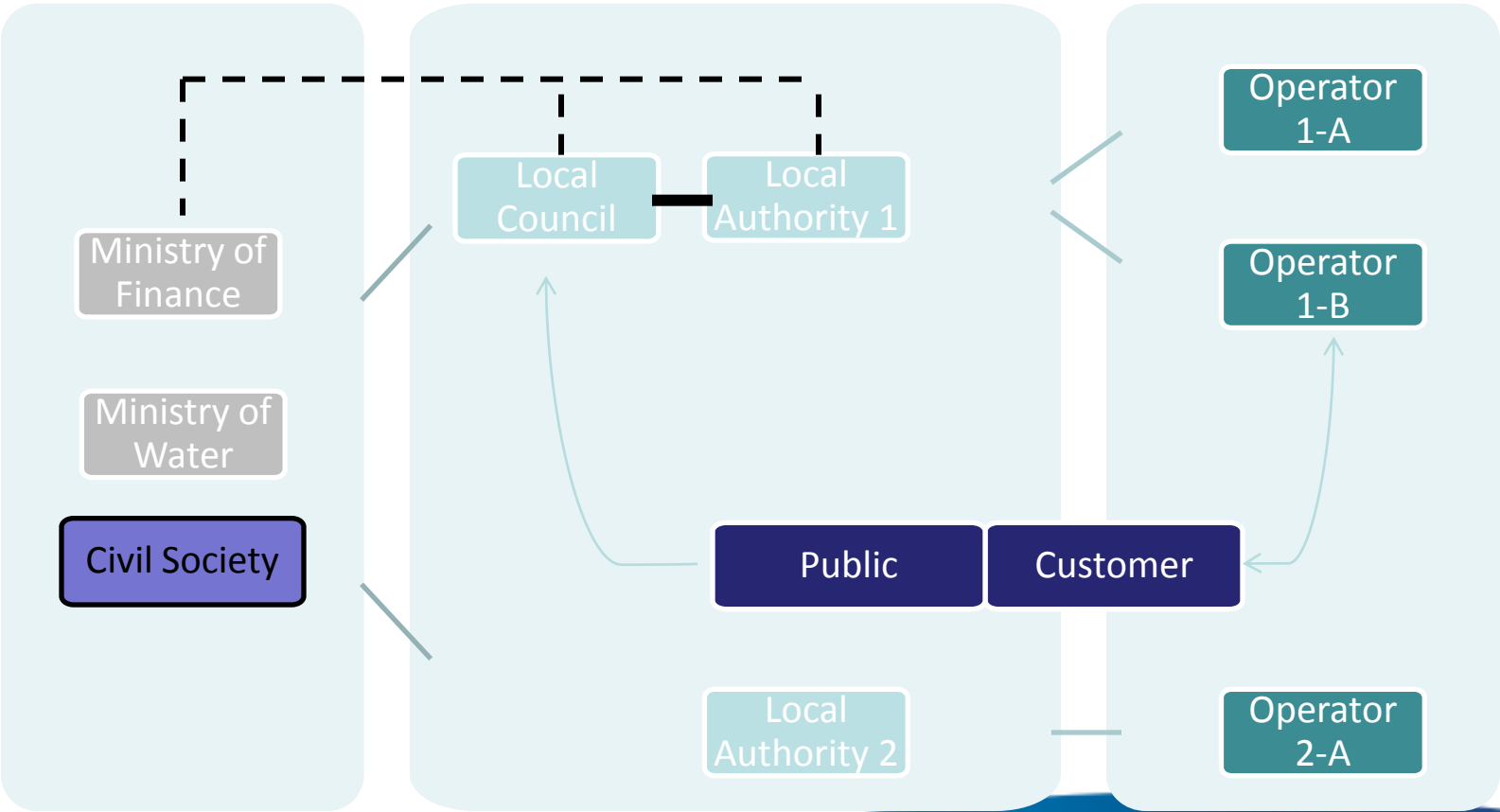
Transaction Manager needs:

- **Senior leader** committed to moving the process
- Multi-disciplinary **project team**
- Access to **decision makers**
- **Communication** skills to build transparency

2 Assign authority to a transaction manager & decision 'pacer': consults, coordinates and champions



Who should be the transaction manager?



3 Market structures are hard to undo: consider **clustering** small transactions for later implementation

Pros

Economies of scale

May address water scarcity in some areas

Attracts 'larger' player

Less administrative burdens for bidding

Less contracts to monitor

Cons

Limits of scale economies

Costly infrastructure

Oligopoly may make it difficult for new entrants

May require costly institutional structuring where service is devolved to local governments

4 Tariffs and adjustment embody risk allocation most of all and is usually the most 'controversial'

transferred responsibilities

Operate and maintain

Rehabilitate

Make investments

• Cost of O&M go up – inflation & other

• NRW – commercial & non-commercial

• System is not operable at take over

☐ Influence/control it?

• Currency exchange due to past foreign currency debt obligations

4 Tariffs and adjustment embody risk allocation most of all and is usually the most 'controversial'

Risk allocation mechanisms

- Penalties and bonuses
- Termination triggers
- Subsidy
- Government guarantees
- Contract duration
- Transition period
- Third party provisions/flexibility for service levels

•NRW – commercial & non-commercial

•System is inoperable

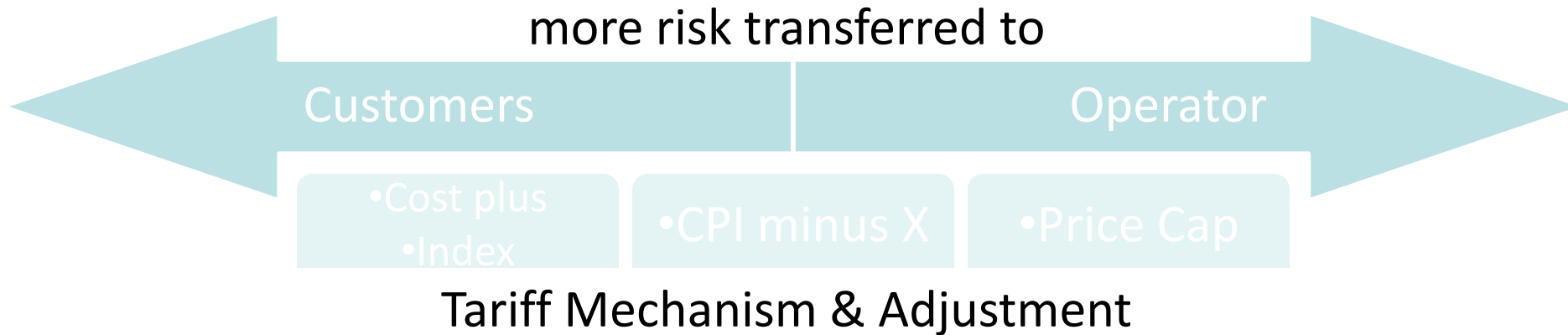
•Cost of O&M go up

•Currency exchange

•System is inoperable

•NRW – commercial & non-commercial

4 Tariffs and adjustment embody risk allocation most of all and is usually the most 'controversial'



- **Timing** – how frequent will tariffs be adjusted; how long does the operator bear the risk until the next reset
- **Triggers** – what rules govern tariff resets: automatic, periodic, upon request or event-based
- **Transparency** – what basis, who is consulted & notified, who decides

5 Good monitoring systems avoid conflict escalation, it's worthwhile investing in it

What needs monitoring

Performance against contractual obligations

Quality of asset maintenance – often forgotten!

Financial information

Who can be involved

Board of directors of operator

Asset owner

Contract management unit

Independent expert and auditor

5 Good monitoring systems avoid conflict escalation, it's worthwhile investing in it

What would help

- Timely information
- Capability
- Incentive to make good choices
- Legitimacy
- Transparency
- Reputation

6 Central government support for local institutions is critical to make PPP possible, enhance capacities and ensure success

Some common examples

Making PPPs Possible

Restructuring 'inherited' debts of public providers

Writing off accounts receivables; amnesty

Enhancing capacities

Model contracts and tariffs

Supervision for tenders

6 Central government support for local institutions is critical to make PPP possible, enhance capacities and ensure success

Some common examples

Ensuring success

- Setting up monitoring and audit systems
- Ensuring access to financing is available

