

SWIM and Horizon 2020 Support Mechanism

Working for a Sustainable Mediterranean, Caring for our Future

Nexus & PPP: the Role of the Private Sector in Decentralised Governance

Presented by:

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Using some training material by **Jan G. JANSSENS**, SWIM-H2020 SM NKE

World Water Day

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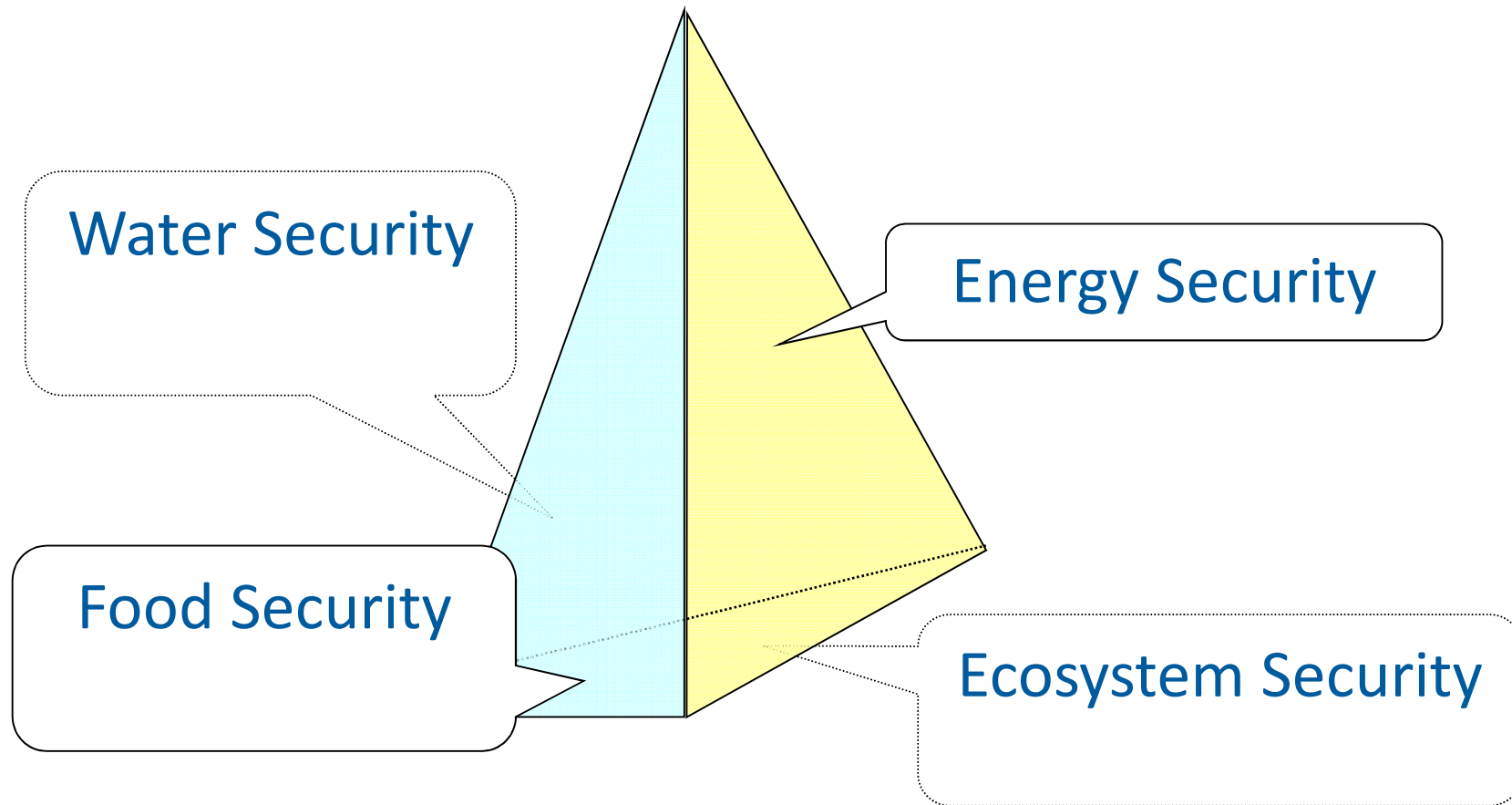
Today, 22 March 2018, the UN Water announced that, by 2050, more than 50% of the world's population vis: 5,5 billion people out of a total population of approximately 10,5 billion will have serious problems with water.

We are talking about the immediate next generations of ours, our children and grandchildren.

70% of the current water consumption, is consumed by agriculture, while the water needed for the ecosystems and maintenance of the biodiversity, is under pressure (less water quantities are available and most of them are affected by pollution).

All the above, jeopardize the needed security, for survival and sustainable development.

The balance and investment in the entire 'nexus' of water, energy, food and ecosystems is important for achieving security and sustainable development for future generations.



Needs for allocation of significant funds for all four aspects of the nexus.

In a nutshell, funding is needed for energy efficiency and renewable energies, “green” agricultural production, non-conventional water resources with parallel full recovery of nutrients and effective protection of ecosystems, including by providing them adequate quantities of unpolluted water.

The public money is frequently not adequate, for such funding, therefore private investment is also in need.



Needs for allocation of significant funds for all four aspects of the nexus.

Out of the above, the most difficult to finance, from the private sector, are the latter two (water and ecosystems) involving projects of various types and scales, many of which are of regional (subnational) or local interest, better designed and managed, through decentralized governance.



The needs identified...

The Government of Lebanon is well aware of the financial challenges that the water sector of the country faces and has been considering the potential involvement of the Private Sector, to assist with the financial sustainability of the water sector and meeting the country's water needs. These needs have been explicitly identified by both the 10 Years Strategy Plan (2000-2009 and the revised edition until 2018) and the 2012 Ministry of Energy and Water (MEW) Strategy, while the Government estimates that financial contributions through the State budget and Official Development Assistance will not suffice to cover the sector's needs.

New regulation on PPPs and request for specific trainings

Indeed, the needed investments for the planned infrastructure development in the water sector, including the "softer" management-related interventions (institutional, tariff, legal and regulatory reforms) are significant and come up against strong financing constraints. Recently a framework legislation on PPP was adopted by the Parliament.

However, constraints for PPP in water infrastructure in the country are still significant. Lebanon requested that the Sustainable Water Integrated Management and Horizon 2020–Support Mechanism provides assistance in “Private sector involvement in water infrastructure with emphasis on wastewater treatment plants” through two closely linked sub-activities.

These activities have been developed in operational synergy with the on-going national work in Lebanon under the *Governance & Financing for the Mediterranean Water Sector* project, ran by GWP-Med. A fact-finding mission to Lebanon (Beirut) was carried out by the Wastewater and Tendering Expert from 17 to 23 September 2017 with a view to develop guidelines for using international standard procurement, tendering and contract management procedures for PPPs in water and wastewater, and, identify training requirements based on existing gaps.

The Project is officially labelled under the UfM framework, supported primarily by Sida and implemented by GWP-Med and OECD. Information on all activities and access to resources are available at <http://www.gwp.org/governanceandfinancing/>

PPP: Public Private Partnership.

Activity 1: Involvement of private sector with emphasis on Banks for NCWR.

This activity (Sub-activity EFS-LB-2.1) aims to help identify the necessary incentives and expand the environmental account fund in the Banks of Lebanon primarily to promote the use of non-conventional water resources in the water-related sectors (agriculture, industry, domestic, tourism) and secondarily to support the expansion of water service facilities.

Three meetings have been organised already and a set of guidelines, project preselection criteria, involving socioeconomic ones have been presented and their finalization is expected soon.

Activity 2: Guidelines and trainings on PPP contracts

The second activity (sub-activity EFS-LB-2.2) focuses on a set of guidelines and training of relevant staff in the water sector to help in improving procurement, tendering and management of wastewater treatment plants “construction” and “services” PPP contracts.

The next training in Beirut is scheduled for 23-26 April 2018.

Public Private Partnerships

PPP is a “contract” between a public sector institution and a private party, in which the private party assumes substantial financial, technical and operational risk in the design, financing, building and operation of a project.

According to the new Lebanese legislation, PPP is defined as:

“Any public benefit project in which the private sector contributes financing and management in, at least, one of the following activities: design, installation, construction, development, restoration, equipment, maintenance, rehabilitation and operation.”

As such, service contracts for operation and maintenance, which do involve financing by the private sector, may not be considered as PPP contracts under this law and therefore, it seems that they may follow different tendering procedures set by the Ministry or the Water Establishment.

It is clarified that the above mentioned contracts are covered by PPPs in other countries.

Potential Objectives for a Water PPP

- ◆ Introduce net cost savings in service provision / improve efficiency of operations
- ◆ Reduce or eliminate public subsidies to the sector for recurrent expenditure (operating subsidies)
- ◆ Increase efficiency of capital investment
- ◆ Mobilize private financing for investment: Create gradually conditions to attract private lenders and equity investors to finance an increasing part of future investment needs through new financial instruments
- ◆ Restructure troubled public enterprise
- ◆ Reduce political interventions in utility operations
- ◆ Attract skills not available in public sector

The Financial Rationale of Government considering Private Resource mobilization

- ✓ Budget constraints and demands exceeding public resources
- ✓ Need to accelerate the creation and provision of infrastructure
- ✓ Need to leverage government resources
- ✓ Efficiency gains and net cost saving

“Nexus” requires Drivers, other than money, offered by PPP.

- ✓ Create additionality
- ✓ Improve quality of service
- ✓ Supplementing public sector skills
- ✓ Restructure stressed and underperforming utilities & public entitie
- ✓ Risk transfer
- ✓ Innovation
- ✓ Reduce political intervention in day to day operations
- ✓ Improved maintenance

**In summary: Two main drivers for PPP in water and
“nexus” approaches?**

1. Lack of Efficiency

2. Lack of Finance

For successful “nexus” approaches operational efficiency should be enhanced: key measures

Improving bill collection

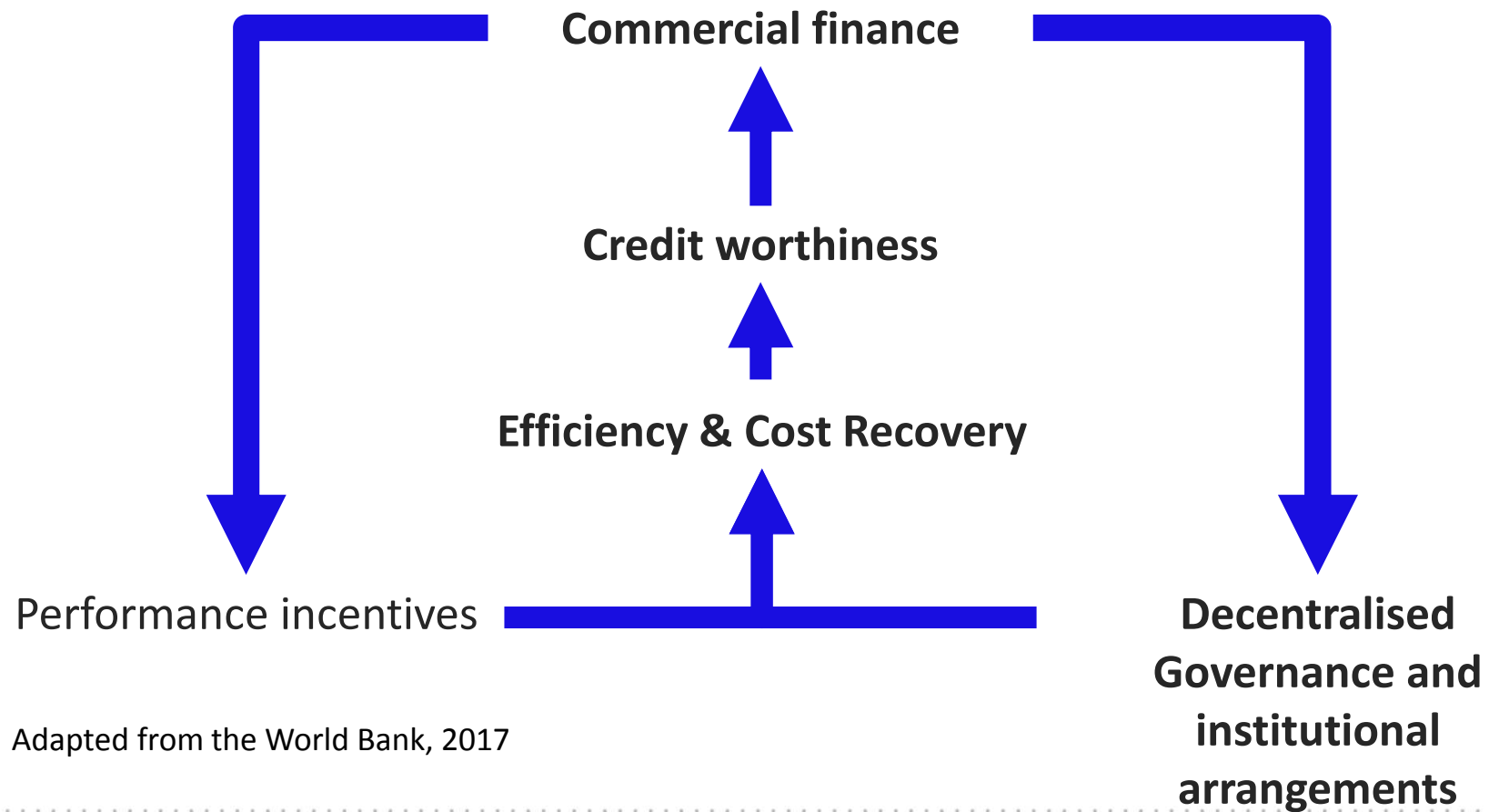
Reducing non-revenue water

Boosting energy efficiency

Improving staff productivity

Source: World Bank, 2017

Create the virtuous cycle

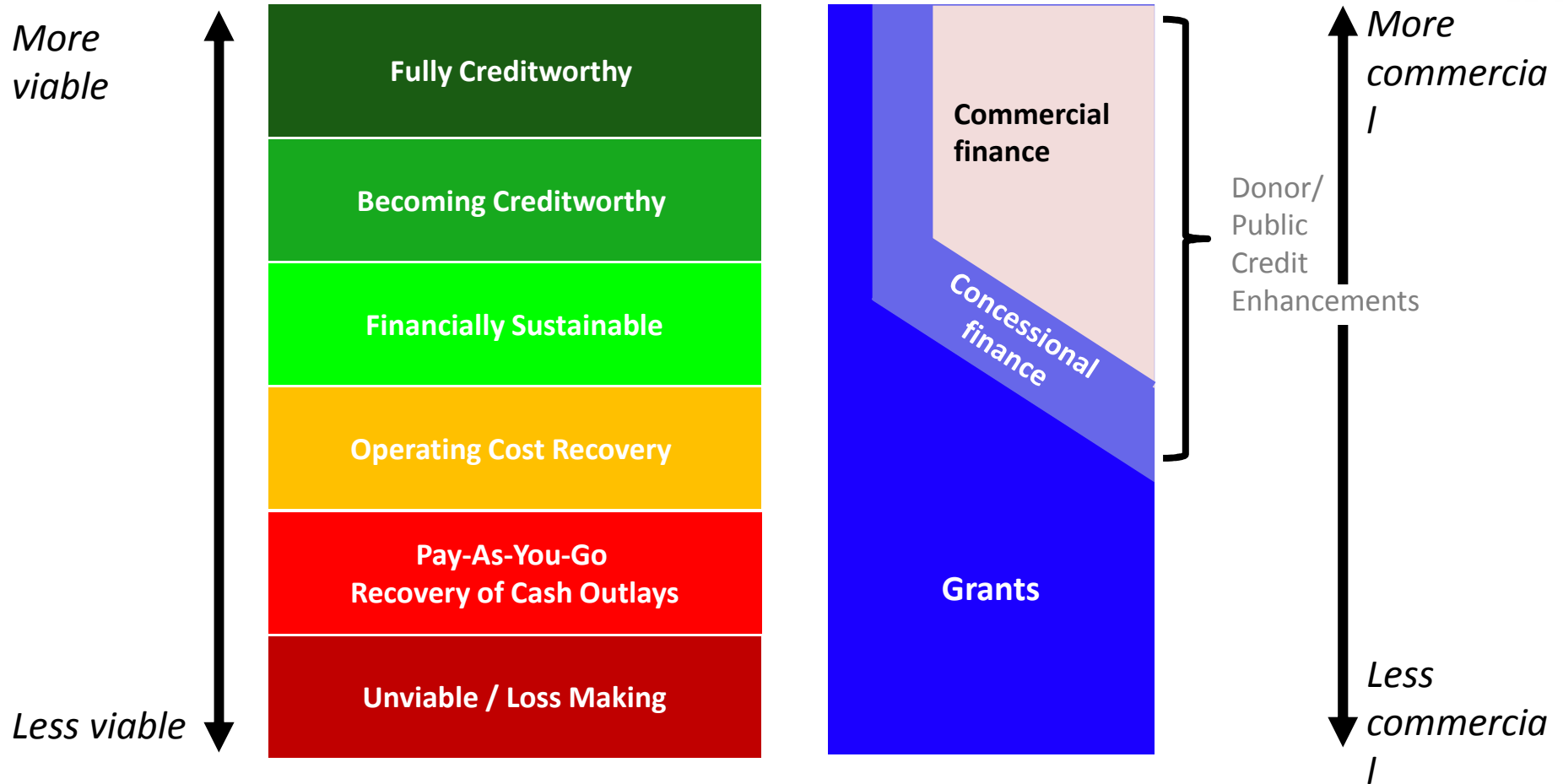


Adapted from the World Bank, 2017

Leverage commercial finance

Service providers

Financing sources



Constraints still exist on PPPs

Consistent with recent findings, constraints to the application of PPP in the water/wastewater sector in Lebanon include institutional, organizational, operational, cost recovery/tariffs, financial (credit worthiness), and commercial issues. There is a lack of skilled staff for Operation and Maintenance (O&M), and despite some positive recent developments and efforts of HCP there is still shortage of professional staff for PPP contract supervision and monitoring (contract compliance control).

Current practice in Lebanon with PPP is limited to short term service contract, Design Build Operate (DBO), and the introduction of performance-based contracts. There is an apparent need for prior upstream PPP due diligence: defining the problem and development objectives, identifying the possible PPP option, and structuring the contract.

Governance & Financing for the Mediterranean Water Sector and SWIM H2020 – SM (2017): Water Governance in Lebanon: Overcoming the Challenges to Private Sector Participation.

The Point of Departure

- Many different options available
- Difference is in the allocation of risks and responsibilities between the public and private partners
- No single right but many wrongs
- There is something for every situation
- Options can build on each other

Take-away : Choose the right option for the right solution

PPP... not a Panacea

PPPs are not a Panacea nor a solution to all the constraints and challenges faced by governments as far as funding infrastructure and service provision are concerned.

**A case by case examination is needed;
Take-away: Never “force” a PPP**

There are some successful cases, with shift from PPP to publicly owned companies, such as the Water Services/Desalination Plant in Malta producing more than 40% of the available water in the country.

PPP... not a Substitute for Reform

- ◆ Empowered operator: no matter the PPP option, he can only succeed if given the control on the means to achieve performance targets
- ◆ Operator needs:
 - Freedom from political interference, and, micro management
 - Autonomy in decision making and on personnel issues
 - Financial security

... not without difficulties

- **Public Acceptance: Media, Local Community, Civil Society, Environmentalists , ...**
- **Political and Social Constraints: Parliament, Government (National, Local)**
- **Employees: fear from termination or changing jobs**

Adapted from: Kamal Zoubi, MCA-Jordan, 2016/ Jan G. Janssens

Attributes of a sustainable institutional framework – PPPs

- ◆ **Roles, Responsibilities** and **Risks** must be clearly assessed and allocated, and **Incentives** and **Accountabilities** must be internally consistent.
- ◆ Risks should be allocated to the party that is most capable of managing such risks.
- ◆ Agreements should be Enforceable.
- ◆ There must be an appropriate **Balance of Power** – No One Party should have overwhelming authority.

The Political Economy of PPPs

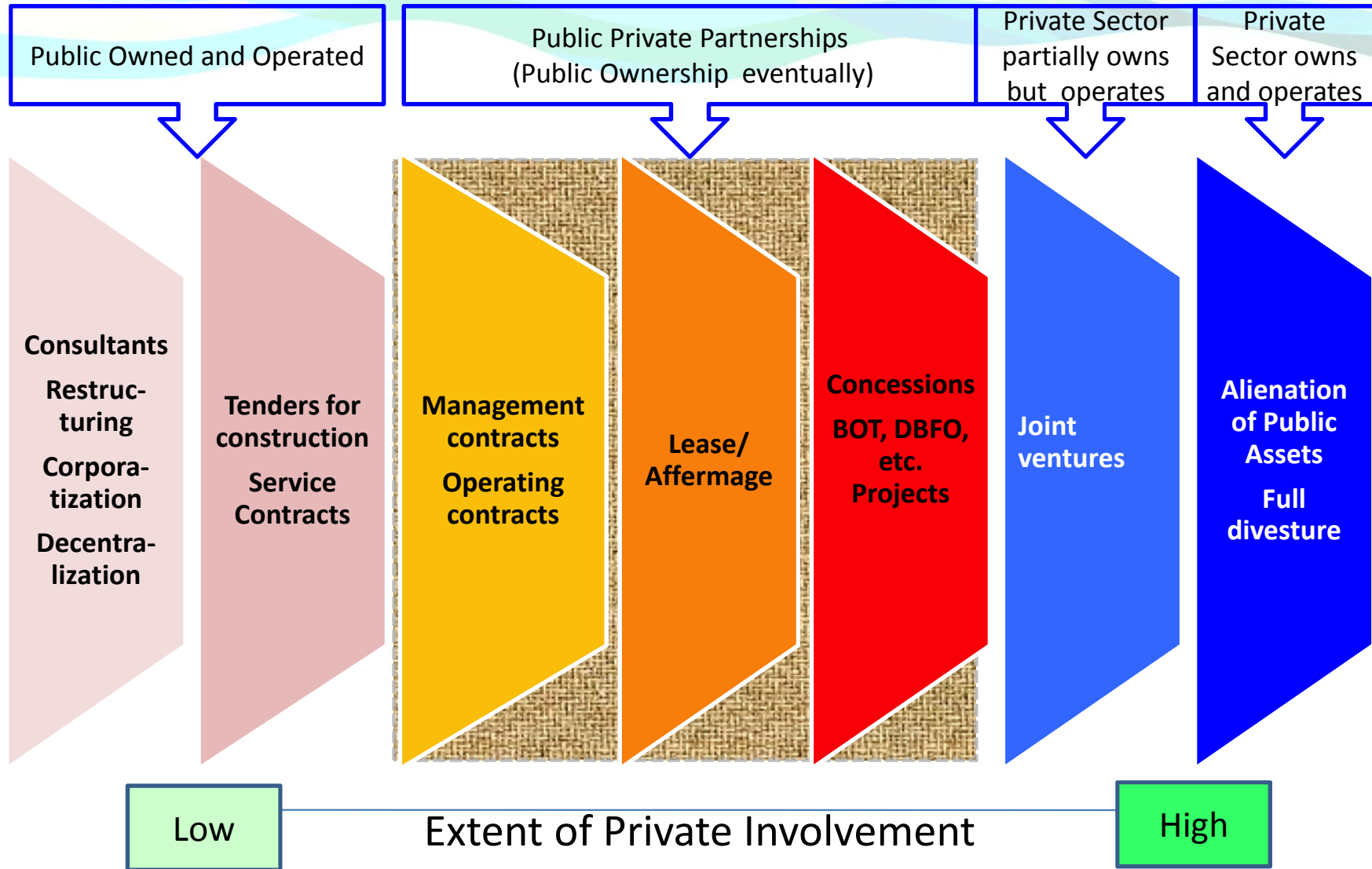
- ✓ The long-term nature of a PPP is the key: if it goes wrong, the negative impact can be great and last a long time
- ✓ Most politicians and officials who are taking decisions about PPPs will not be in office by the time a particular PPP ends
- ✓ There is the tendency to aim for early benefits and put off the painful aspects until much later
- ✓ This is an important reason for “PPP laws” and mandated rigorous appraisal procedures

Key questions for Governments in moving to PPPs (NG, LG, counties, municipalities)

- ❖ What problem are we trying to solve?
- ❖ What are the implications for tariffs, and are we prepared to deal with these?
- ❖ Is the regulatory framework sufficient?
- ❖ Can key stakeholders be brought on board?
- ❖ Is information about utility assets good enough to serve as a base for a long-term contract?

Based on the answers to the above questions we may select from a wide spectrum of PP Interaction.

Wide Spectrum of Public-Private Interaction





A training on PPP soon:

An in-depth training on all the above, with many more details
and examples will be conducted by

Mr. Jan G. JANSSENS, SWIM-H2020 SM NKE

and will take place on 23-26 April 2018, in Beirut.



A training on PPP soon:

The workshop is structured in two parts:

- Part 1 (Day 1): Introductory policy session on the PPP policy issues allowing participants, **including High level Officials**, to understand in depth both the provisions of the new PPP legislation and the guidelines prepared under the SWIM-H2020 SM.
- Part 2 (Day 2 and 3): **An in-depth training for those directly involved in the procurement of water and wastewater infrastructure**, in designing/analysing outsourcing options and in the management and control of respective contracts.



Thank you for your attention!!!

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