# Sustainable Water Integrated Management (SWIM)

**Expert Facility Activity No EFS-LB-2**

# Procurement of PPP in the Water/Wastewater Sector

## Day 1 – Session 1.2:
## Towards a Common Understanding of PPPs in Water

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# Complexity of the Water Sector

**Monopolistic**

Capital intensive, high fixed costs, long-term investments, technology-specific, inelastic demand, low returns and important asymmetry of information

**Essential for life**

Basic need, important externalities on health, gender equality and environment. Essential input for business.

**Many stakeholders and segmentation**

Public sector, communities, users, employees, private sector, donors, NGOs. Responsibilities fragmented between different ministries and across national, regional & local authorities

**Risky**

Commercial risk, contractual risk, forex risk, sub-sovereign risk, risk of capture by vested interest. Combination amplifies the risks.

# 1. Introduction: What is a PPP ?

# Public Private Partnerships

**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**

# 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

# But, PPP Drivers are Not Only Money …

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

# In summary:
# Two main drivers for PPP in water ?

1. **Lack of Efficiency**

2. **Lack of Finance**

# Boost operational efficiency: key measures

Improving bill collection

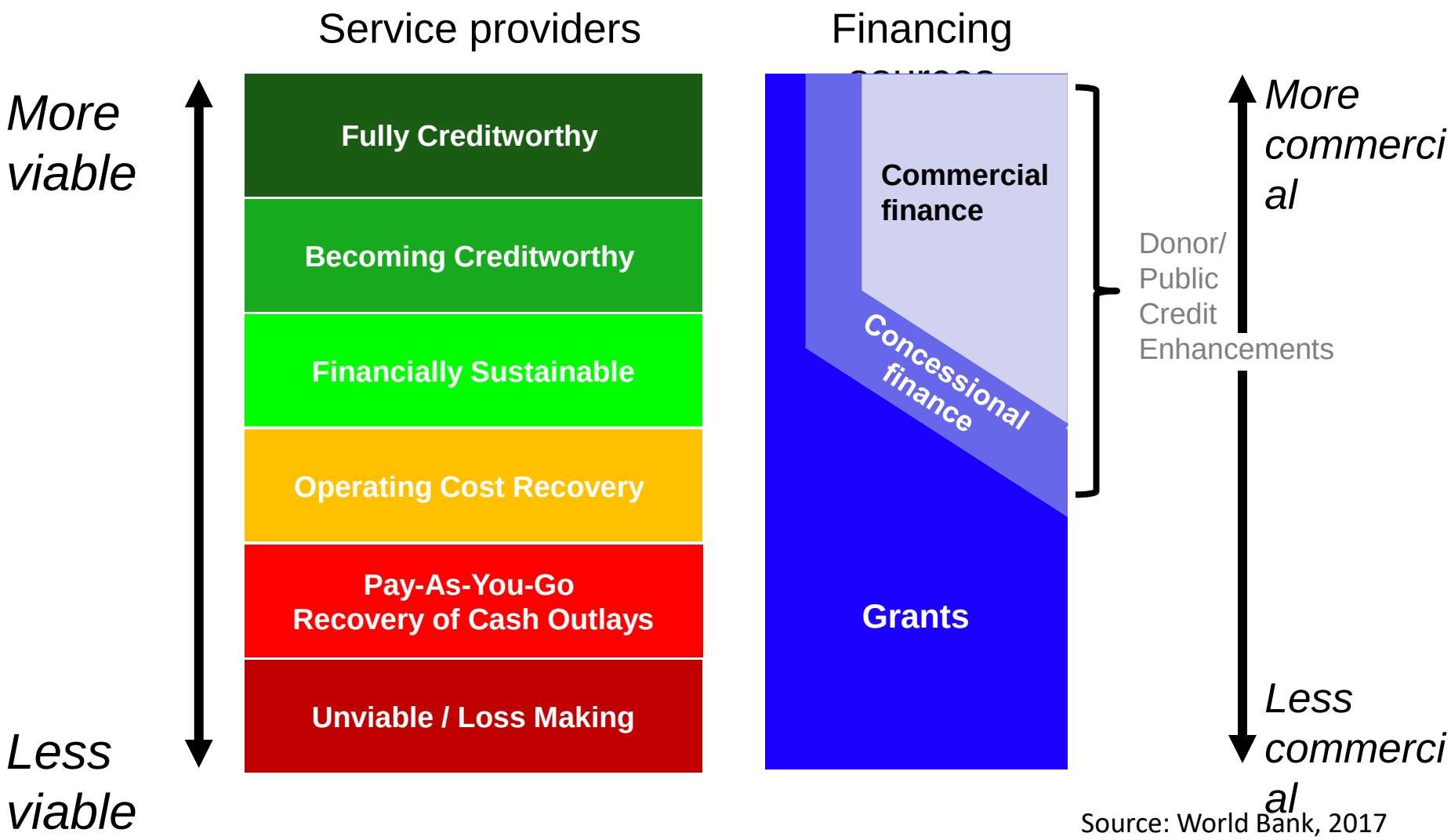
Reducing non-revenue water

Boosting energy efficiency

Improving staff productivity

Source: World Bank, 2017

# Leverage commercial finance




Source: World Bank, 2017

# 2. PPPs: Key Success Factors & Constraining Barriers

# 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

**PPP's 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**

**Take-away: Never "force" a PPP**

# PPP
# … nor 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

# … and Constraints

- 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

# 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
## (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?

# Characteristics of PPP's as an Alternative Procurement Method

- ✓ Long term contracts between public and private with joint objective hence partnership
- ✓ Government is the grantor
- ✓ Real and defined risk transfer
- ✓ Financing normally becomes a private responsibility
- ✓ Payments and income are over the life of the asset
- ✓ The asset remains in public ownership or is transferred at the end of the contract
- ✓ Performance (output) specifications and not design (input)

# 3. Types of PPPs

# Two major approaches for PPP …

1. The **Project Finance Initiative ("PFI")**
   - Green field projects
   - Brown field projects

2. The **Delegation of a Public Service ("DPS")**

# Different contracts for different objectives - 1

1. **PPPs for supporting reform and change, and/or, improve utility management performance to reform**
   -> Contracts of delegation of management (*contrats de gestion déléguée)*
   -> Concession, Lease/Affermage
   -> Management contracts

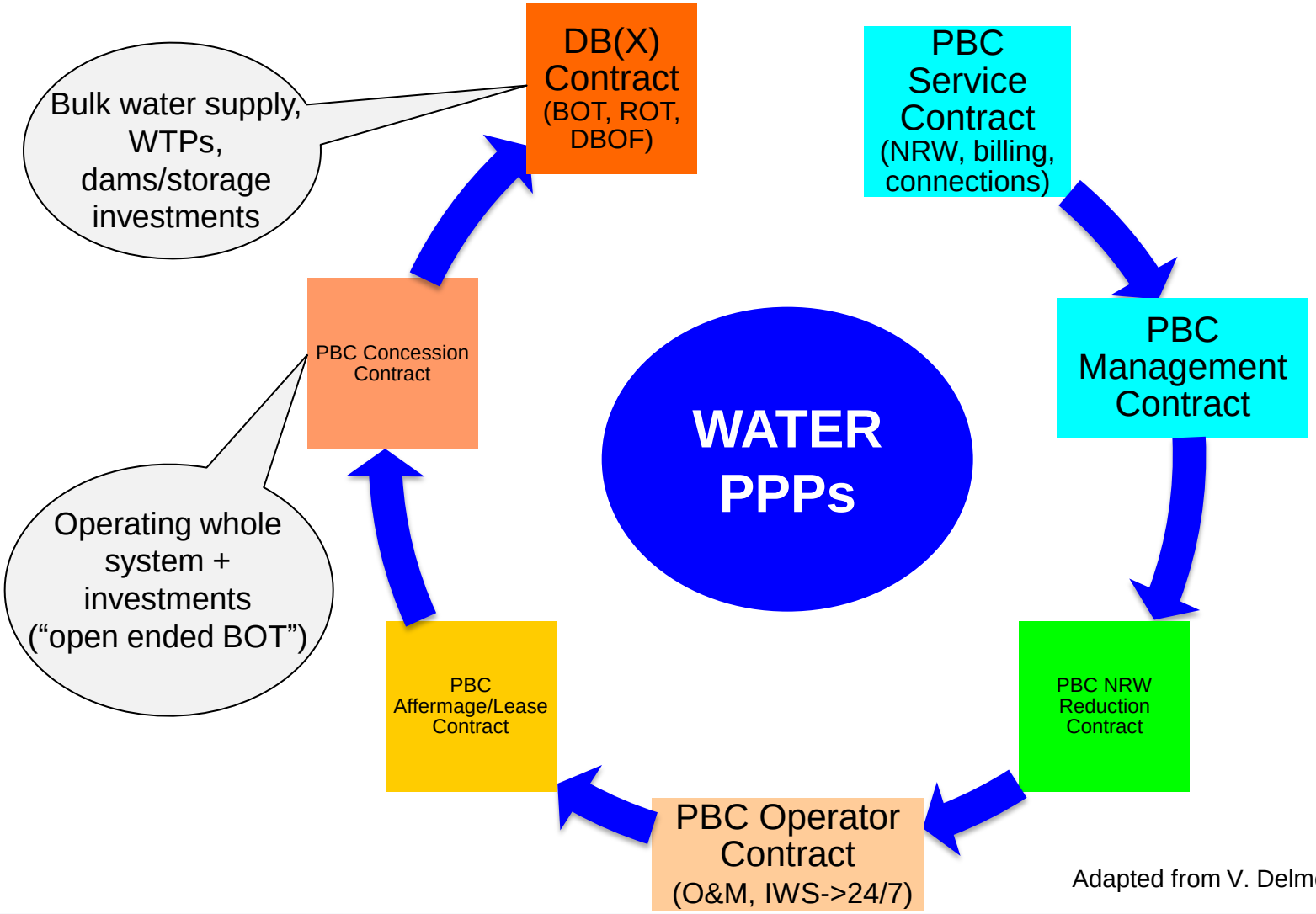
2. **PPPs for improving efficiency of operations**
   Performance based service contracts, e.g. for Non-Revenue Water (NRW) reduction (outsourcing contracts)

# Different contracts for different objectives - 2

3. **PPPs to respond to specific challenges and circumstances**
   -> Small scale independent (domestic) private operators in peri-urban and low income communities

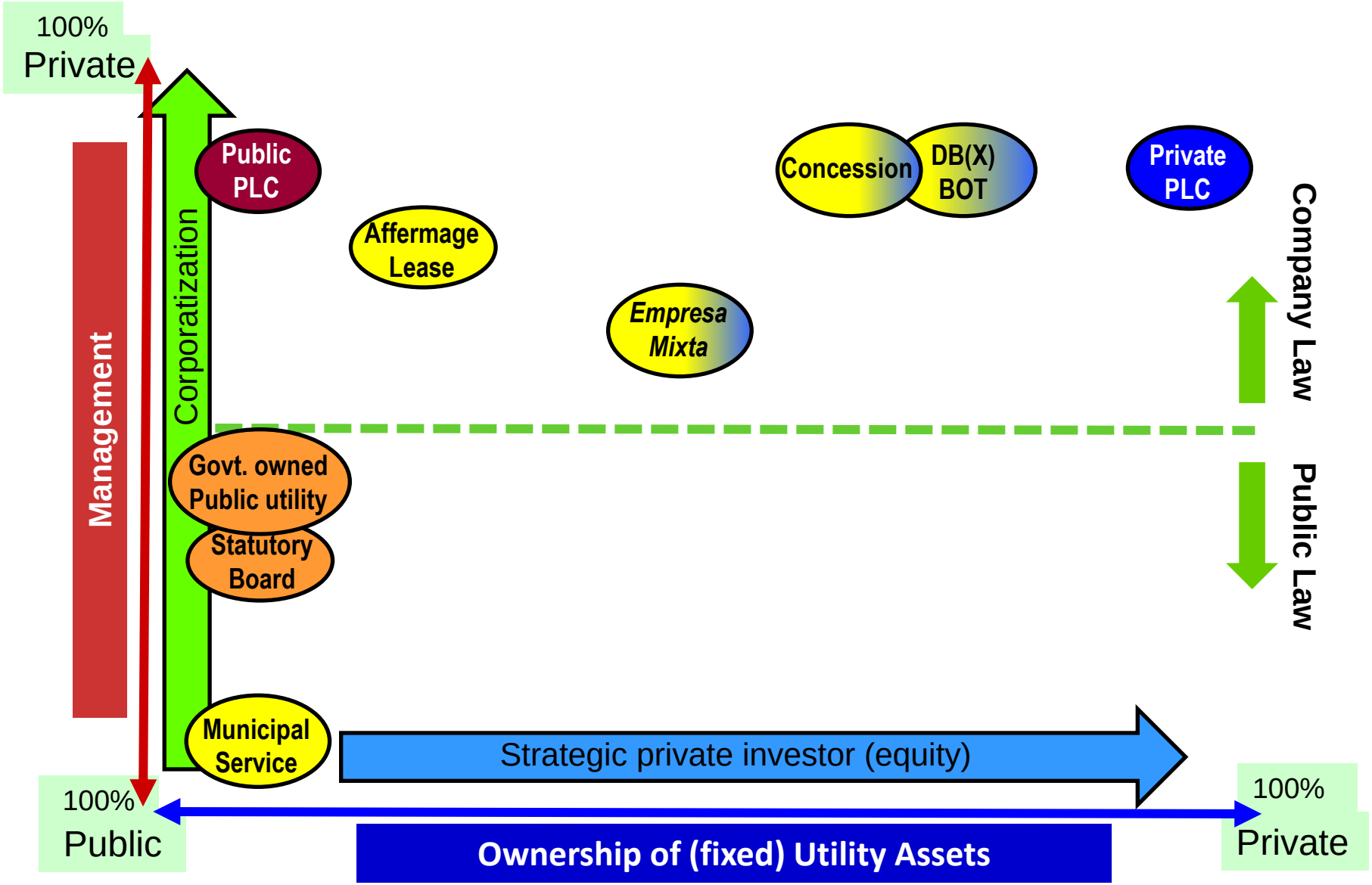
4. **PPPs for water infrastructure finance (PFI)**
   -> Build – Operate –Transfer (BOT) contracts
   -> Rehabilitate – Operate – Transfer (ROT) contracts
   -> the Design – Build – Finance (DB[X]) options

# Models of PPP in Water Sector




Adapted from V. Delmon, World Bank, 2015)

# The dichotomy: Utility Ownership and Utility Management



# 4. Capacity versus Performance

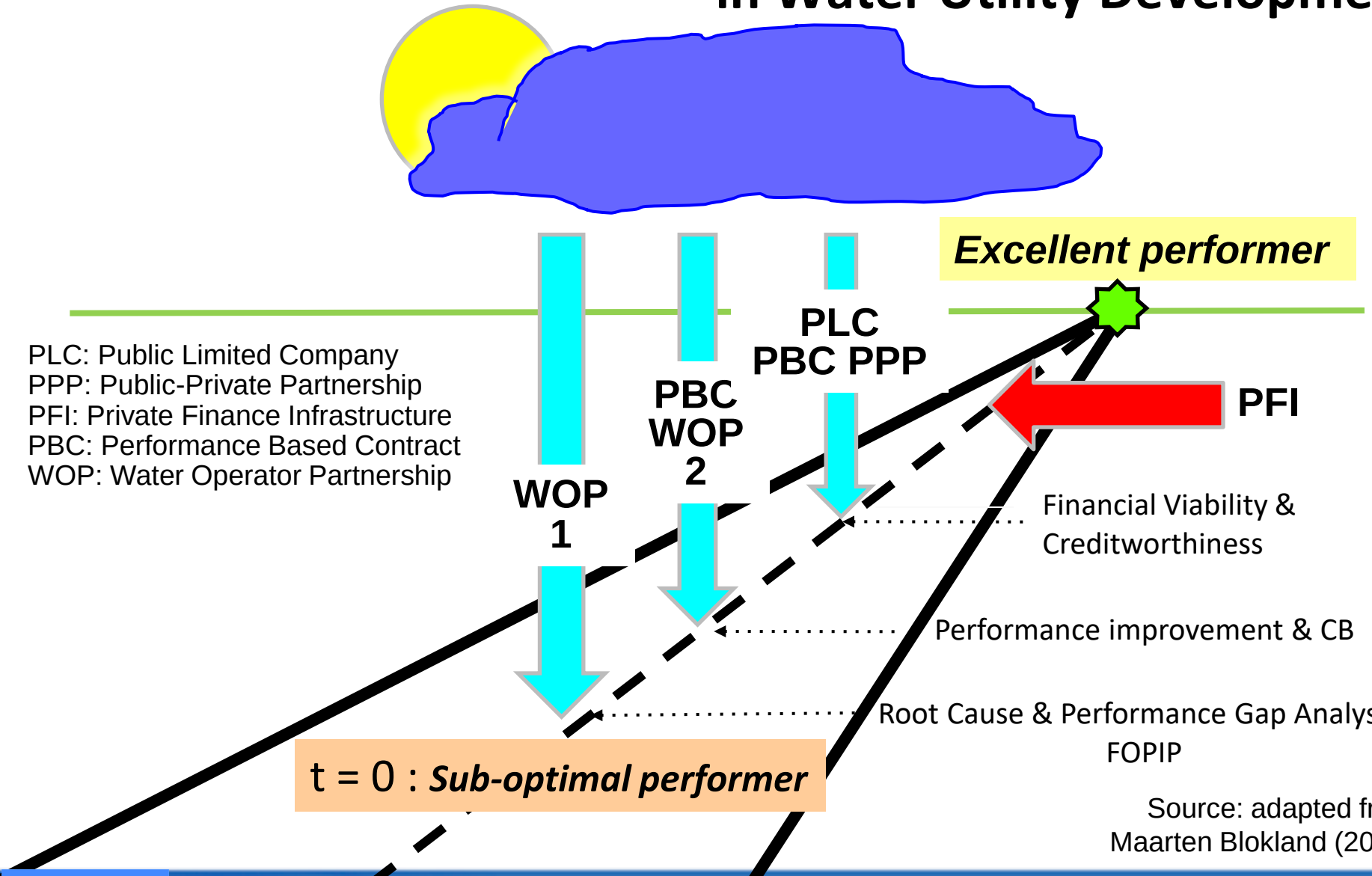
# Water PPP versus traditional Technical Assistance or Construction Contracts

- ✓ Around the developing world, the :**traditional technical assistance approach for improving WSS services has often proved disappointing**
  - Consulting firms focus on delivering “reports”, rather than relevant operational advice
  - Remuneration is not linked to actual improvements

- ✓ Similarly, traditional construction contracts focus on building plants and laying pipes – based on lowest construction costs and with **little concern for overall project costs** (CAPEX plus OPEX) and sustainable O&M

Source: Philippe Marin (2016), World Bank

# Strategic positioning of WOPs and PPPs in Water Utility Development




PLC: Public Limited Company
PPP: Public-Private Partnership
PFI: Private Finance Infrastructure
PBC: Performance Based Contract
WOP: Water Operator Partnership

Source: adapted from Maarten Blokland (2016)

# 5. PPP Taxonomy

# PPP Terminology - 1

- **PPI**: Private Participation In Infrastructure
- **PSP**: Private Sector Participation
- **P3**: Private Public Partnership
- **PFP**: Privately Financed Projects
- **PFI**: Privately Financed Infrastructure (*green field, brown field*)
- **P_P** Projects
- **PPP**: Public Private Partnerships
- **PPCP**: Public Private Community Partnerships

# PPP Terminology - 2

- **DPS**: Delegation of a Public Service
- **BOT**: Build Operate Transfer
- **BTO**: Build Transfer Operate
- **BOOT**: Build Own Operate Transfer
- **ROT**: Rahabilitate Operate Transfer

# 6. Glossary:
# Common Terms

# Common Terms - 1

- **Management contract:** This refers to the transfer of the responsibility for managing a utility to an operator for a fee based on satisfactory service delivery transfer – often for 3 to 5 years.
- **Affermage / Lease:** This refers to the use of fixed assets funded by the public sector. In Affermage-Leases the operator is responsible for operating and maintaining the business, but not financing investments - with a term often from 8 to 15 years. The income is normally derived directly from the customer.
- **Lease:** Existing assets and /or land is leased to a private entity for the construction or refurbishment of assets for a service to be provided to customers.
- **Concession:** In Concessions the operator is given the responsibility for financing investments, as well as operation and maintenance, with assets returned to government after say 25 years. The concessionaire delivers the service directly and collects tariffs from the customer.

# Common Terms - 2

- **Corporatization**: Corporatization is the process of restructuring a publicly owned business into a corporate structure legally distinct from the parent local government. An entity is corporatized normally by changing legal format to a state owned company and run along business lines
- **Divestiture**: Where an asset is alienated entirely by selling it to the private sector; also named privatization
- **Joint Venture**: Where public and private sectors jointly invest the capital in a project with the private sector normally managing it
- **Franchise**: The taking over of the management existing infrastructure often against a up front lump sum payment

# Thank you