

**Public-Private Partnerships for Service
Delivery (PPPSD) Facility of the UNDP**



**National Symposium on Public-
Private Partnership in Economic
Development of Nepal**

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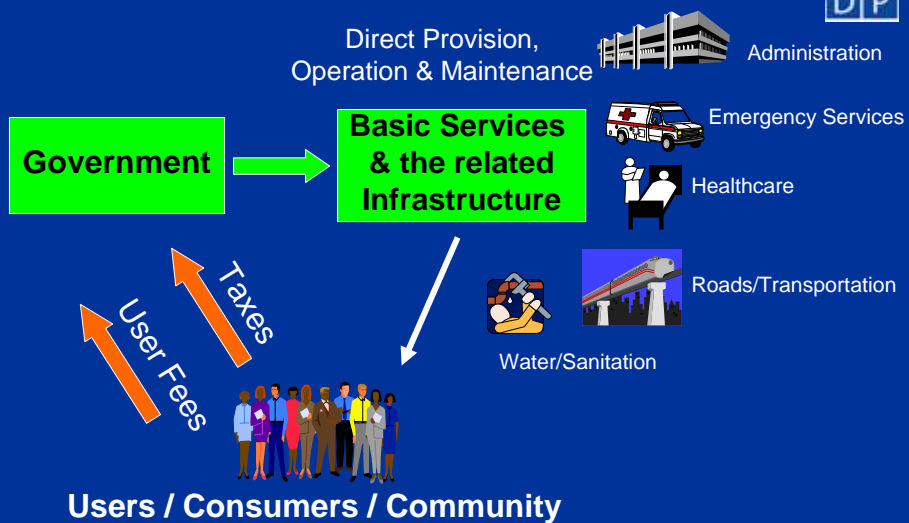


Access to Basic Services – primary education, health care, water supply, sanitation, solid waste management, renewable energy supply – is vital for poverty eradication & the achievement of the MDGs.



Basic services are public goods. As markets fail to provide such services equitably, primary responsibility & accountability for their delivery remains with the State/Public Sector

Public Sector as Direct Provider



...and yet:



Growing need for basic services is not matched by the existing capacity (e.g., human & financial) of traditional service providers

...as a result:



Various Non-State Actors (*large & small, formal & informal private sector, CBOs, NGOs, SCOs, FBOs*) are filling-in the gap in the context of a regulatory vacuum

...leading to: poor getting services at high cost, albeit poor quality & limited quantity...



For instance, in Caloocan City Barangays in the Philippines:

- deep well at **P20-25 per drum consumption**;
- bulk water at **P35 per drum consumption**; &
- bottled mineral water at **P35-45 per 5 gallons**

whereas, **those directly connected to the formal system - at approximately P2.20 per drum consumption**



The cost of 1 m3 of Water in Lao PDR



Piped Water Supply	200 litre drum	20 litre bottle	0.75 litre bottle
Kip 860	Kip 5,000	Kip 100,000	Kip 1,333,333
(US\$ 0.09)	(US\$ 1.57)	(US\$ 10.47)	(US\$ 139.61)

Source: WSP 2002

PPP can provide a practical tool / solution / framework for actors to work together to:



- Deliver Basic Services to the Poor & contribute to the achievement of MDGs targets,
- Provide Economic/Livelihood Opportunities to the Poor,
- Ensure Participation & Representation by the Poor, &
- Contribute to Local Development Efforts

Public-Private Partnerships



- A complementary approach available to the public sector to ensure delivery of public services through the formal engagement of the private sector or other NSAs.
- A formal long-term working relationship established between a responsible public authority & one or several NSAs to jointly fulfil a public basic service delivery expectation by the general public.

PPPs: How Does the Public Sector's Role Change?



from
**Direct
Provider of**
Basic Services
& the related
Infrastructure

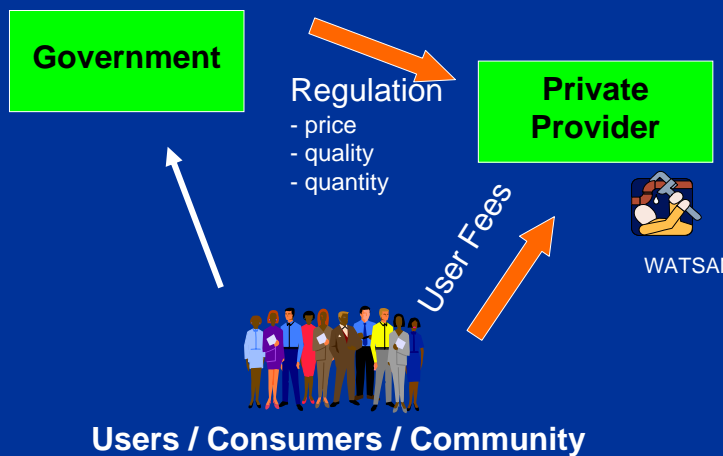


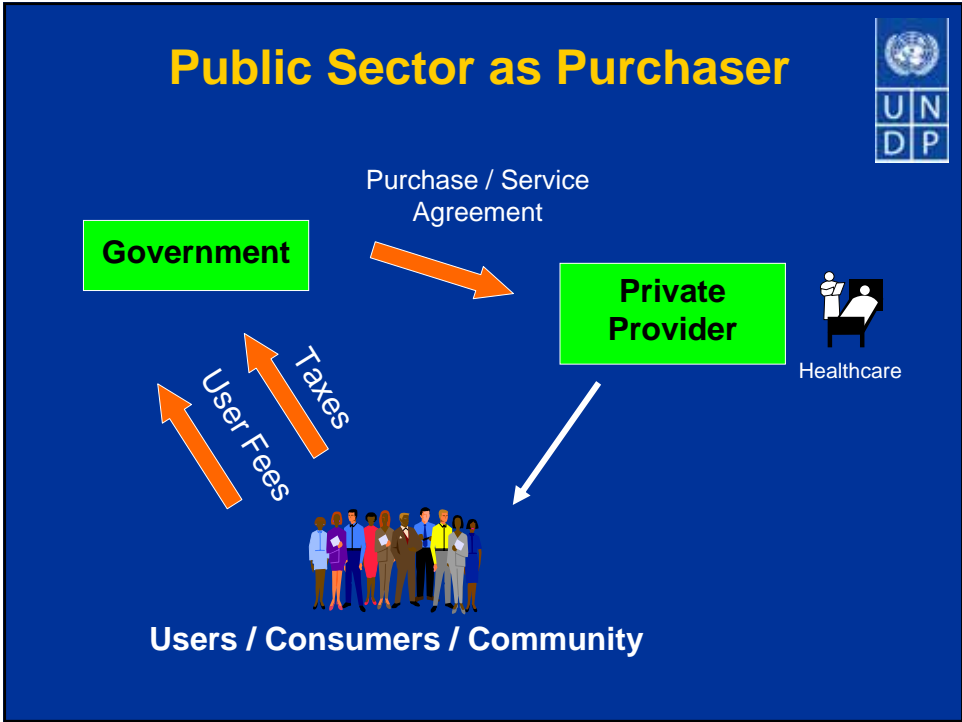
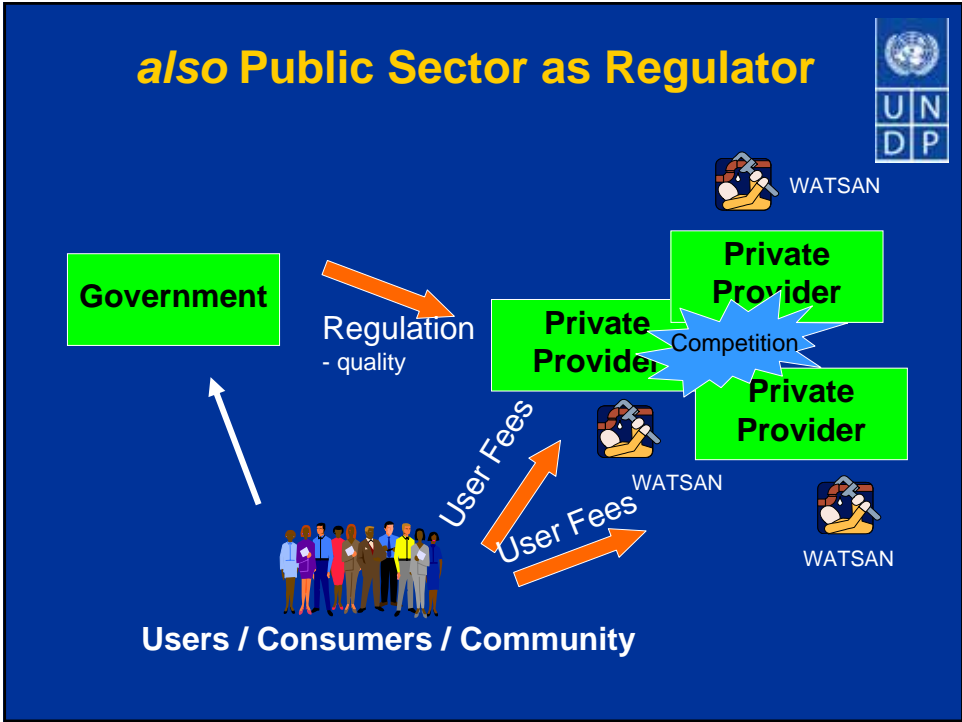
to Regulator of
Services provided by
the Private Sector

&

to Purchaser of
Services/Infrastructure
provided by the Private Sector

Public Sector as Regulator





Types of PPP Contracts/Agreements /Arrangements



Type of PPP	Description	Typical Duration	Asset/Infra. Ownership
Cooperatives	Can take various forms, but in the main are self-governing, voluntary organisations, which serve the interests of their own members	Various	Public/Private
Service Contract	Private company performs specific tasks on a contractual basis	1 to 3 years	Public
Management Contract	Private company assumes the managerial responsibility & is remunerated based on key performance indicators	3 to 5 years	Public
Lease	Private company rents public assets, responsible for the service provision & buys the right to revenue stream	5 to 15 years	Public
Concession	Private company pays fee to operate public assets & is expected to finance capital investments	25 to 30 years	Public
BOT (Build-Operate-Transfer)	Private company develops, finances & operates facilities	25 to 30 years	Private; after contract expiration to be transferred to Public

Some PPP Arrangements:



Co-operatives: different varieties exist, but in the main are self-governing, voluntary organisations working in partnerships with the public authorities. Co-operatives serve the interests of their own members or the members are encouraged to undertake activities for their own interest. All members of co-operatives have an equal vote, with which they can express their needs.

Some PPP Arrangements:



Management Buyout (MBO): public authorities can allow the management of well run internal functions to negotiate the purchase of that function, usually with the help of private venture capital. The MBO company thus formed becomes a private venture, but it usually has the benefit of buying a long-term contract from the authority as part of the purchase price. All employees transfer to the new company, & the parent agency has little or no residual responsibility as an employer. Once the contract comes up for renewal, the MBO should compete with other private sector companies.

Some PPP Arrangements:



Contracting Out: the placing of a contract by a public authority to a private company. It is essential to maintain some form of internal control function to monitor the private contractor's performance against the contract specification, and to determine payment procedures. A government may choose to contract-out part of the activities of a public utility as a means of reducing its size as a matter of policy.

Some PPP Arrangements:



Management Contract: a private company takes over the responsibility for managing a service to specified standards, but using the staff, equipment, vehicles & buildings (infrastructure) of the public authority. Such a process can occur when the service providing public organisation is experiencing significant change in its responsibilities or in its working method & where existing management does not have the right level of skills necessary to manage the change. Such arrangement is likely to last for a relatively short period until internal management obtains the skills necessary to successfully manage the utility in the new environment. Under this arrangement the private operator collects the charges on behalf of the public authority & will in turn be paid an agreed fee.

Some PPP Arrangements:



Leasing: leasing equipment, rather than seeking to purchase it/them, is one way of obtaining equipment when the opportunity to borrow money for capital investment is limited. A lease gives the private company the right to operate & maintain a public utility & its equipment, but investment remains the responsibility of the public authority. On the other hand, a public authority may wish to discontinue operation of an enterprise & lease out its assets to the private sector on the basis of competitive bidding for a specified period of time. The private sector operator pays rent on the leased assets & may enjoy an option to buy the assets once the lease comes to an end.

Some PPP Arrangements:



Franchising/Concession: the private operator takes over responsibility for raising finance for investments as well as running the service & collecting charges. This arrangement applies to a specific jurisdiction or geographical area & comes with full or some degree on business exclusivity for it. The private partner will pay an annual fee or may receive an annual subsidy depending on the financial circumstances of the service. Such arrangement may apply in respect of services provided by an urban authority where the user charges cover either fully or substantial proportion of the total cost.

Some PPP Arrangements:



Build, Own & Operate (BOO): a partnership between the public & private sectors whereby a private firm, through turnkey contracting, may build, own & operate a facility which will be used by the general public. BOO may not be popular in every country, because the ownership of the facility remains with the private sector. However, the development of such a scheme shows that the private sector is satisfied that the fundamental risks & economic benefits can be satisfactorily managed.

Some PPP Arrangements:



Build, Operate and Transfer (BOT): Similar to BOO, but at the end of the specified period the ownership of & right to operate the facility will be transferred to public/urban authorities. The award of the contract will be on a similar basis as to a BOO scheme with the added ingredient of the time when the private firm is prepared to transfer ownership. The period will be calculated by the private firm to ensure that the profits from operations cover the initial investment.

However, PPP approach in itself does not necessarily benefit the Poor

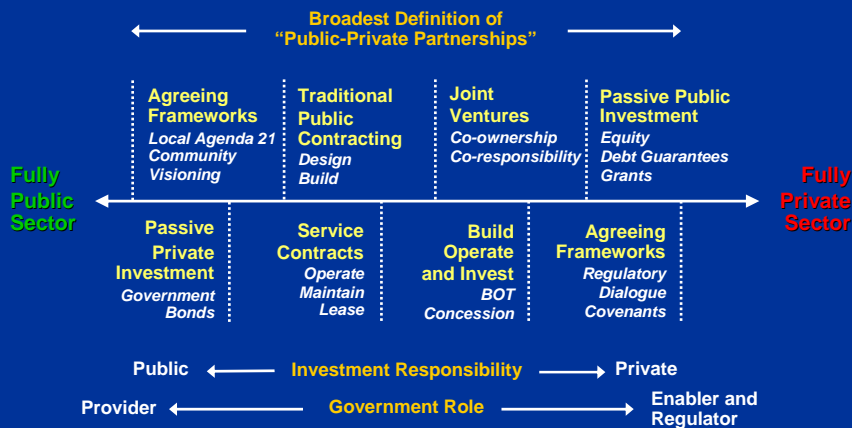


Often improvements in the service come at the expense of the poor if proper policy directives, regulatory regimes & contractual arrangements with clear poverty reduction objectives & incentives are not put in place & relevant performance indicators are not reflected in the contracts at the outset:

- overall service improvements can mask a reduction in the service to the poor
- or price increases for the poor
- loss of employment due to increased efficiency
- squeezing-out of small-scale formal as well as informal providers, etc.

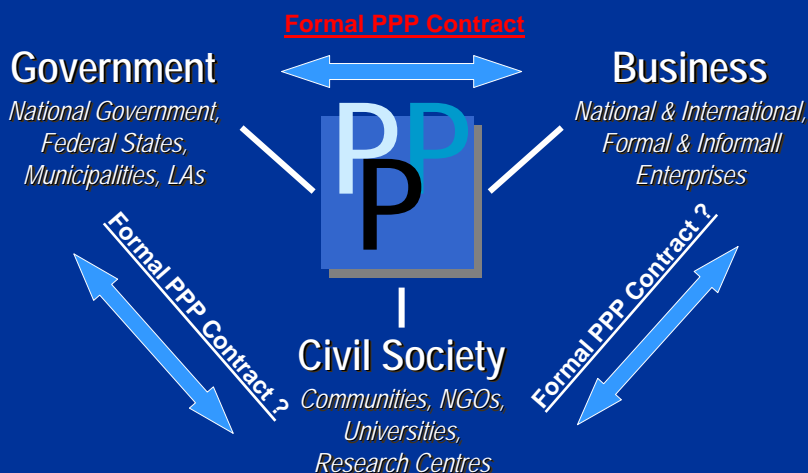
PPPSD Spectrum of Options

PPP is not Privatisation



Inclusive Partnerships

Using Strengths of All Partners to Address Service Delivery Challenges & achieve MDGs



How Pro-Poor PPPs Work



- Private partner – efficiency & innovation to maximise profits
- Public partner – enables, sets standards, monitors performance, regulates
- Commercial interests of partners are met in a way which benefits broader consumers & the poor themselves (*as consumers, as service providers, as sub-contractors, & etc.*)
- Civil Society – facilitates, harmonizes, oversees

PPP Options



- Usually a contract between a LG & private/non-state actor
- Options: service contract, management contract, lease contract, concession contract, B.O.T., etc.
- **Name is not important; being clear about basic arrangements is the key!**

Value Drivers



- Performance incentives are critical
- Risks create incentives
- **Service outputs (not inputs)**
- Competition (during procurement & ongoing)
- **Business, NOT Charity/Philanthropy!**

Let the private contractor to decide on the best suited inputs to deliver on the required outputs:



The Philippines Experience: Enhancing Access of the Poor to Water Supply Services (*work in progress*)



Supporting the water regulators & main water supply concessionaires:



- to improve safe drinking water supply to communities on the outskirts & informal settlements of the city by piloting a model Public-Private-Community Partnership for water supply



- where the formal engagement of Small-Scale Water Service Providers into the water supply network is facilitated

- & enabling regulatory environment is proposed & promoted

Need for concerted efforts on the part of All Partners to make the Sustainable Local Energy Services Provision in Tiruchengodu Town, Tamil Nadu State in India to:



Develop Public-Private-Community Partnership model for poultry litter management to...





Comprehensive / Sector-wide Approach to Addressing Issues Hindering Such Collaboration & Delivery of Services to the Poor



Need for concerted efforts at **all levels** of a government:

- a **system-wide** review for contradictory & conflicting policies, rules & regulations
- their streamlining for consistency

Implications for Policy & Regulatory Frameworks



Some of the Pro-Poor PPP Policies include, *inter alia*:

- Provide flexibility in adapting technical standards to reduce costs to serve poor neighbourhoods
- Allow services to be differentiated in order to satisfy user preferences
- Allow phased payments of connection/service provision fees
- Addressing land tenure issues
- Providing direct, well targeted subsidies to the poor
- Non-exclusive clauses that allow small-scale providers to serve poor neighbourhoods: sometime need to have preferential policies to encourage local & community-based businesses involvement
- Promote users forums & adequate customer care & poor users feedback mechanisms
- Promote & facilitate micro-credit for small-scale providers
- Local development policies must ensure that private contractors do not “cherry pick” only most attractive neighbourhoods

Addressing Key Capacity Challenges



- Capacity of governments to identify service sectors for NSAs' involvement;
- Capacity to create adequate policies, institutions in support of NSAs in Service Delivery;
- Capacity to regulate service sectors & ensure inclusive participation of users to assess services provision through adequate oversight & feedback mechanisms;
- Capacity to engage NSAs;
- Capacity to monitor performance of service providers through adequate contractual arrangements that ensure flexibility, continuous revisions to reflect evolving situations, etc.

Addressing Key Capacity Challenges (*continued*)



- Capacity of multinational companies & large domestic concessionaires to formally engage with Small-Scale Providers & *vice-versa*
- Capacity of the civil society to complement governments' poverty reduction efforts in services delivery as well as to oversee their implementation



Thank You!