



Innovations and Sustainable Solutions for the
Water Sector in the Arab Region

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Building Innovative Public-Private-Partnerships for Effective and Equitable WSS Services

by

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Outline

- ◆ Introduction
- ◆ Potential objectives for a PPP; Attributes of a sustainable PPP framework
- ◆ Different contracts for different objectives
- ◆ Emerging trends

Why are PPPs taking front stage (again) ?

- ◆ Availability of public capital remains constrained due to deficits and/or prudent fiscal management
- ◆ Availability of private capital also constrained: investors generally more risk-aware than previously and less willing to take risks in emerging markets
- ◆ Yet huge capital needs remain in infrastructure, education and health care, for development and for competitiveness
- ◆ Efficiency gains from private sector involvement continue to be believed being considerable.

Drivers for Private Finance

- Governments and multilateral lending agencies (IFIs) look at private finance as a means to introduce more commercial methods and approaches in the way public utilities are financed and operated, hence improving efficiencies in operations and in cost recovery.
- Private sector finance can reduce the costs through competition, gains in efficiency, and introducing more integrated and smart solutions.

Potential Objectives for a Water PPP

- ◆ to obtain sustainable improvement in the provision of, and access to, water and sanitation services, particularly in un-served and low-income areas
 - ◆ to achieve significant progress in terms of productivity and sustained managerial autonomy resulting in higher operational efficiency
 - ◆ to create enabling environment conducive to sector growth
 - ◆ to leverage on private capital and state-of-the-art technology
- **to create gradually conditions to attract private lenders and equity investors to finance an increasing part of future investment needs through new financial instruments**

Attributes of a sustainable framework - Public or Private

- ◆ **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.

Two major approaches for PPP ...

1. The **Project Finance Initiative** (“PFI”)

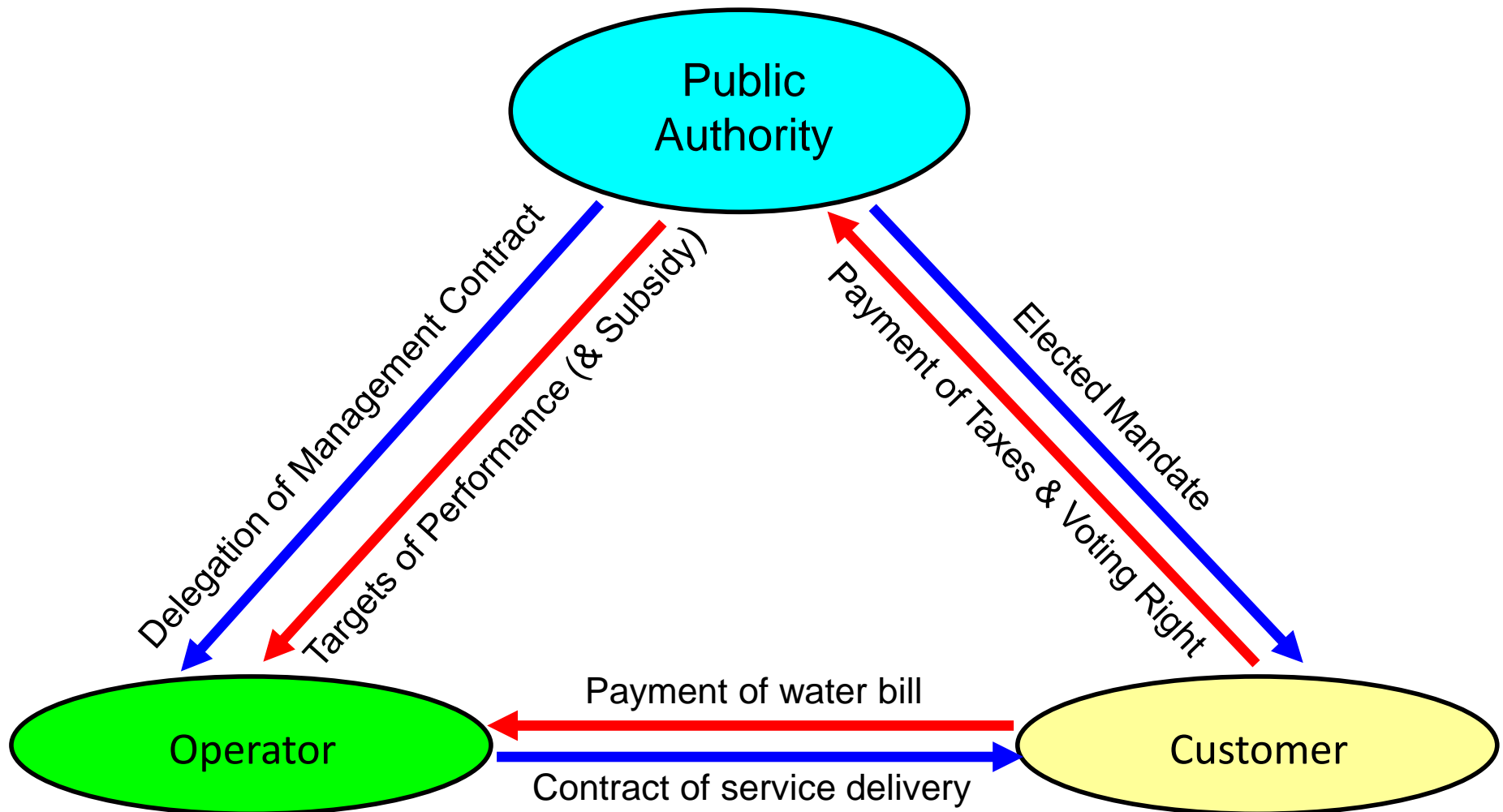
- Green field projects
- Brown field projects

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

- Utility governance, management, O&M
- Service provision (quality, reliability, access)

The triangle of delegation of public service (DPS)

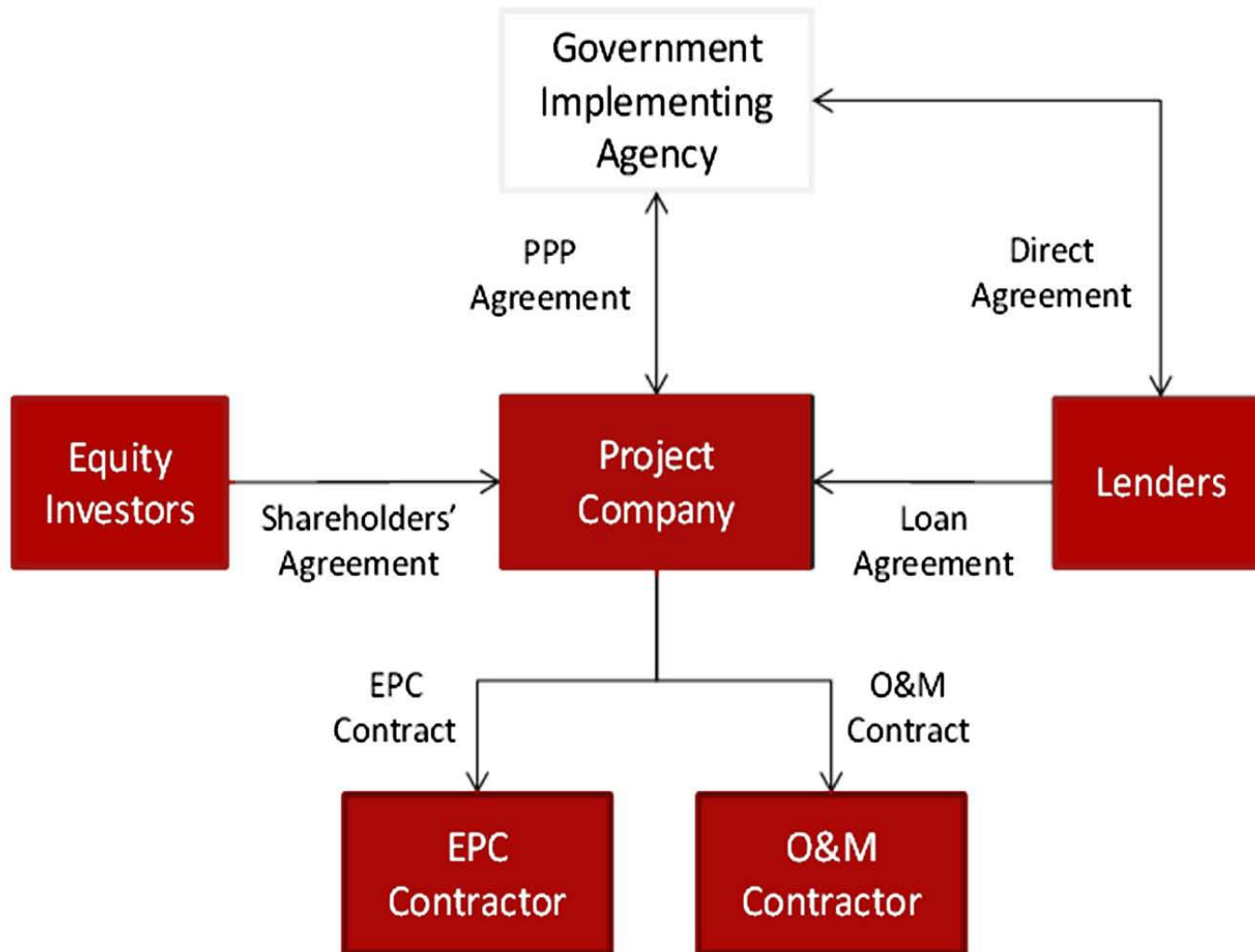
A repartition of responsibilities



Source: Sarah Botton (CEFEB), 2011

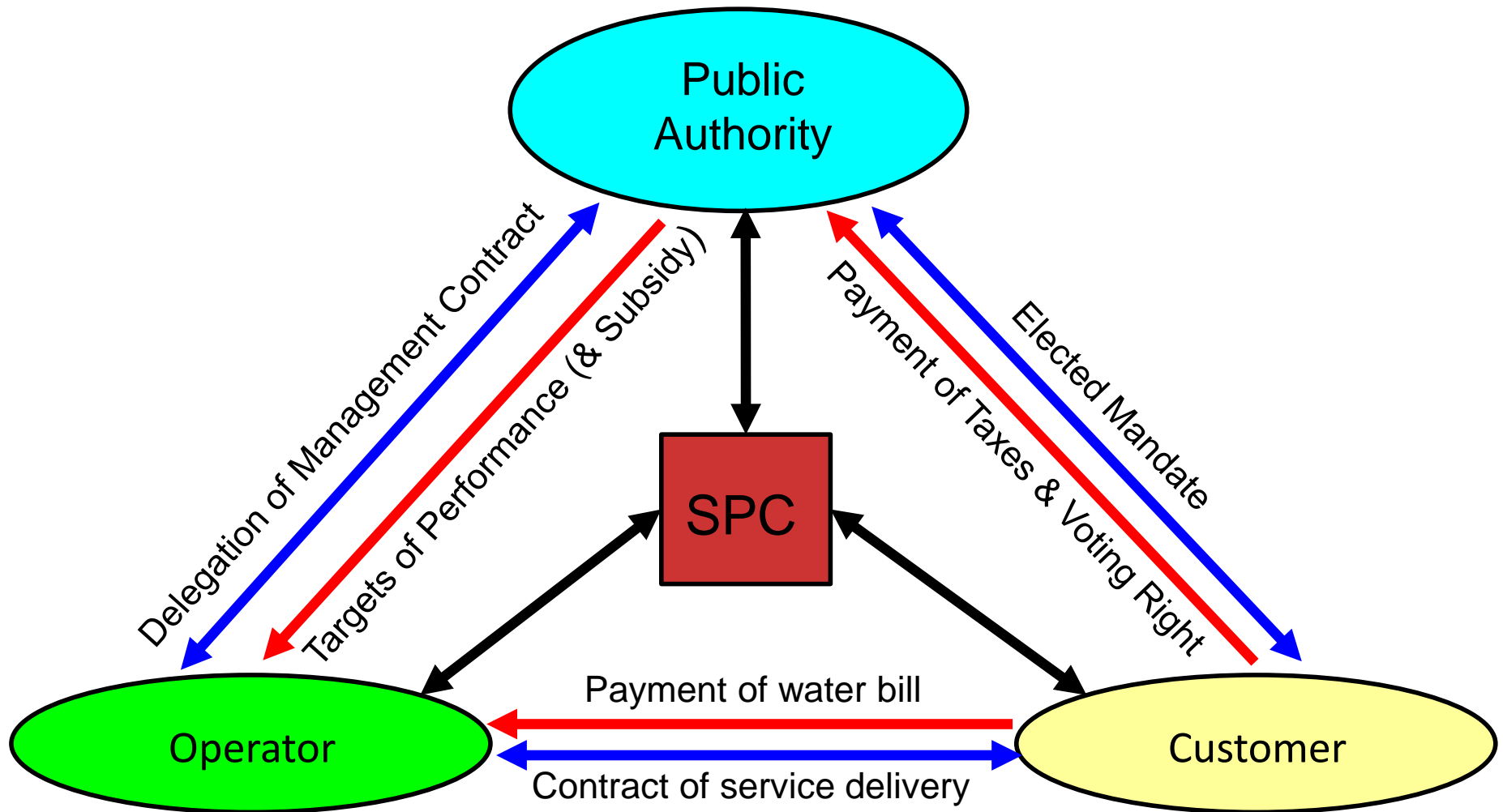
Typical PPP structure in Project Finance (PFI)

A repartition of risks

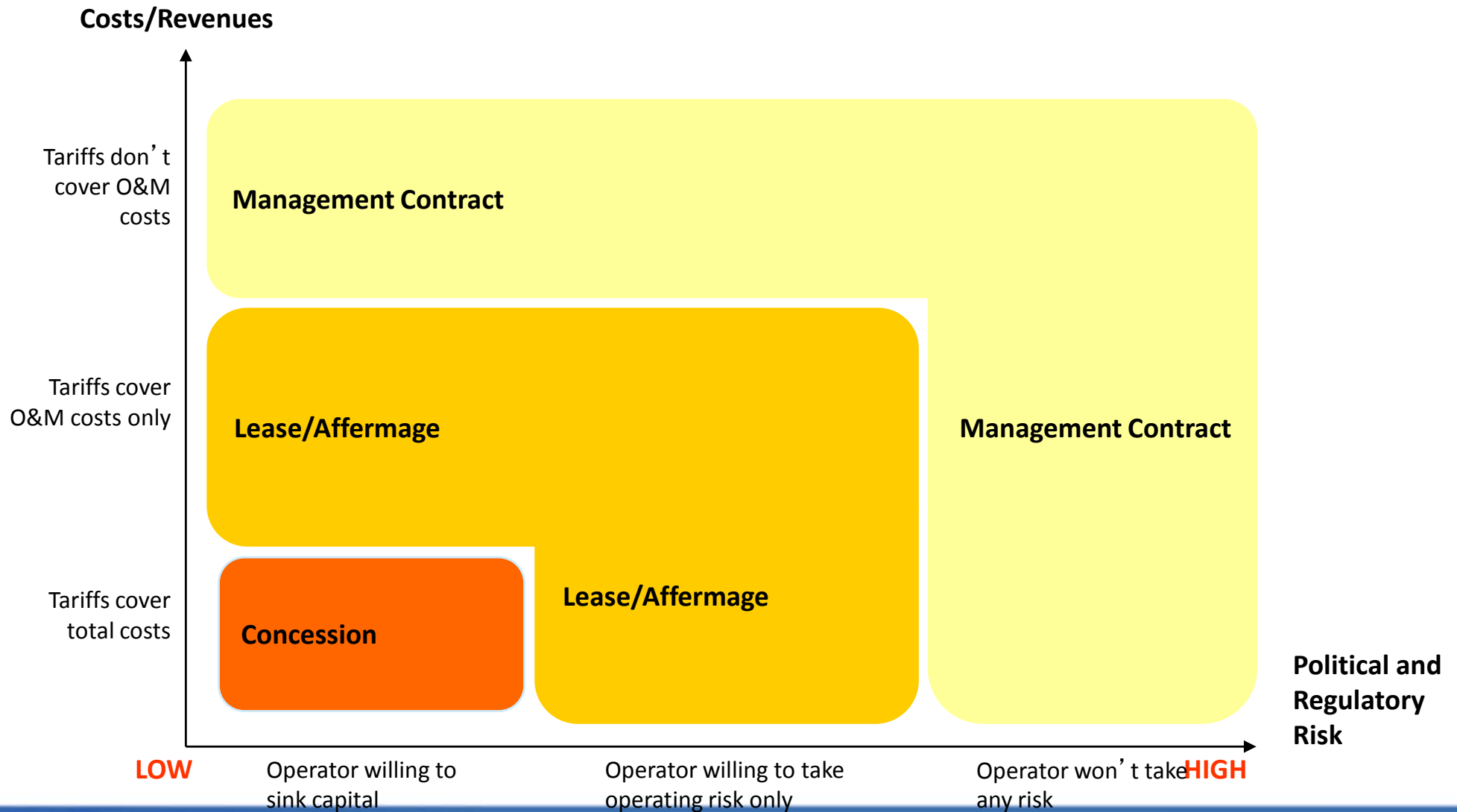


Source: WBI - PPIAF (2012): PPP Reference Guide

Blending DPS with PFI



Choosing the 'best' model according to risk and tariff conditions

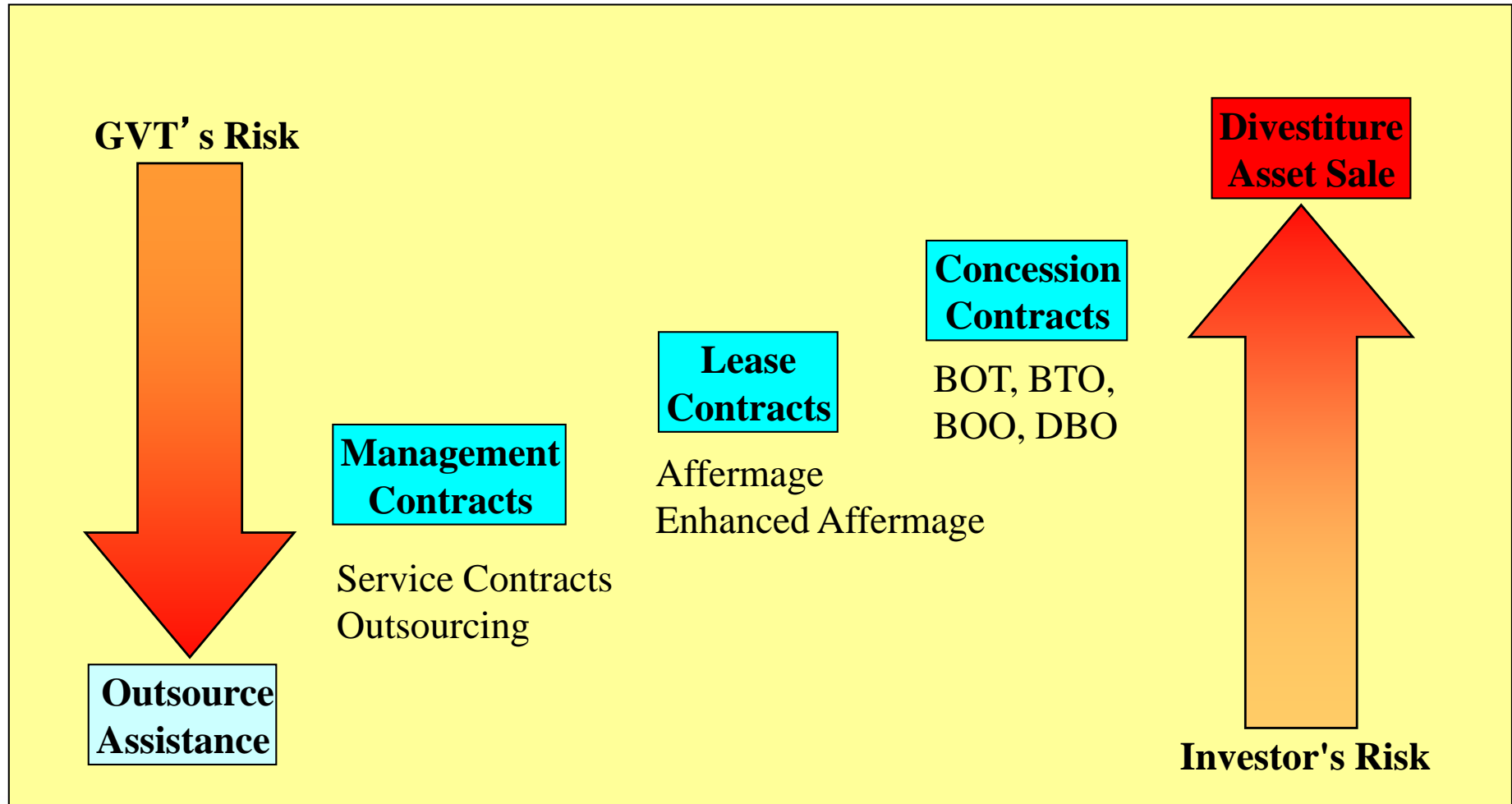


Source: Water Operators Round Table, Nov. 2004

Key Questions

- How to **structure** the PPP to create comfort for private investors to take equity?
- How to **create** conditions to attract private sector (debt)finance?
- How to **design** the PPP transaction linking finance to achieving predetermined performance targets?

Choice of Contract for a Balanced Risk Allocation



Risk Assessment

- ✓ Understand the nature of risk
 - The probability of the risk materialising (the Likelihood Index or Probability Factor)
 - The impact if it materialises (the Severity Index or Vulnerability Factor)
- ✓ The allocation of risk responsibility
- ✓ Do not push risk transfer too far – Needs to be fair and equitable
- ✓ Risk mitigation and migration
- ✓ Impact of remaining risk

The 2008 WB-PPIAF PPP study

The conclusion was:

“water PPP in emerging countries is NOT over...”

- ❖ Overall performance has been quite satisfactory
- ❖ More and more countries with water PPP in place
- ❖ Population served constantly growing
- ❖ Perception of water PPP tended to be biased by some failed projects : the *“trees hiding the forest”* syndrome...

A new generation of Water PPPs

many models available, including:

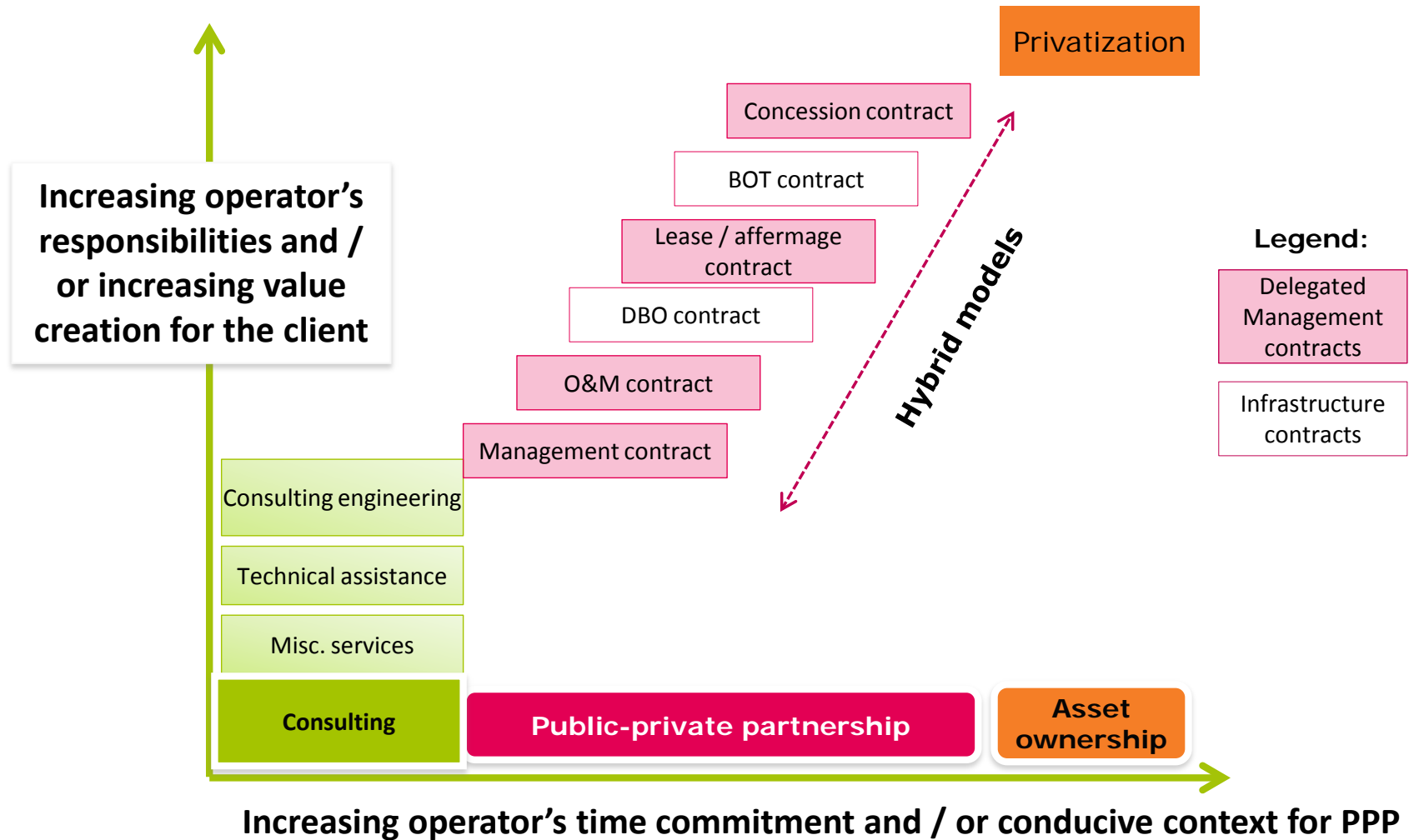
- ❖ **Performance-based** (long-term) contracts
- ❖ **Mixed-ownership** companies (“*empresa mixta*”) (with sub-national lending)
- ❖ **Operator** contracts (treatment plants, distribution networks – transition IWS to 24/7/365)

Performance Based Contracts: *challenges*

- ◆ To have a ***validated*** base-line information is a precondition for an effective incentive structure with realistic time-bound performance targets – *inaccuracy of base-line is an issue and a constraint*
 - Sequential, progressive PPP contracts ?
 - Evolving from a contract of means (input based) towards a contract of results (output based) ?
- ◆ Making gains of efficiency ***sustainable through a balanced PPP***

**improving performance – building capacity
& hybrid financing**

PBCs can apply for a wide variety of services and contracts



Source: Suez (2014)

New PBC models coming from developed countries ...

Australia: the *Alliance* approach in Adelaide: (2011): 10-year O&M contract, performance-based (Suez)

North America: *long term contracts, performance-based*

- Canada: Winnipeg (30 years, “collaborative agreement”)
- USA: New York (2012, 4-years), Pittsburgh...

A Stepwise Approach ?

- ✧ An intermediate PPP step may be needed while institutional, operational efficiency, and/or financial viability problems are tackled, to
 - Raise tariffs,
 - Build Government commitment and regulatory capacity,
 - Gain better information about the system
- ✧ **But a stepwise approach:**
 - May never go beyond the first step ...
 - May involve complex re-bidding issues

Emerging Features in PPP Contracts

- ◆ Profit-sharing for incentivizing overall performance
 - Based on technical & operational performance
 - Based on financial efficiency
 - Asset management integral part of incentive/remuneration structure

- ◆ Open book operations
 - Increased accountability to consumers & civil society
 - Provides real choice of options for transition to next generation PPP

PPP : the « hidden » question : what's after ?

- Is it possible (in a realistic manner) *to switch back* to public operation after a PPP? **Three main obstacles**
 1. **Information system** not owned by utility or utility not able to manage it
 2. **Staff** : skills can go away with private operator
 3. **Procedures**, good practices and certifications (ISO 9001, etc.) can go away with private operator

- Can *well designed contracts* overwhelm these obstacles ?
 - Through fully addressing information system issues (ownership, etc) in contract
 - Through the capability of an early preparation of the transition (put in contract)
 - Through a “permanent control” of the private operator

A utility that has
lost its way, can..

..enter in delegated
management

...or in a professional
support arrangement



Source: Meike van Ginneken, World Bank, 2007



Thank you

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