

Public-Private-Partnerships

The Partnership Phase

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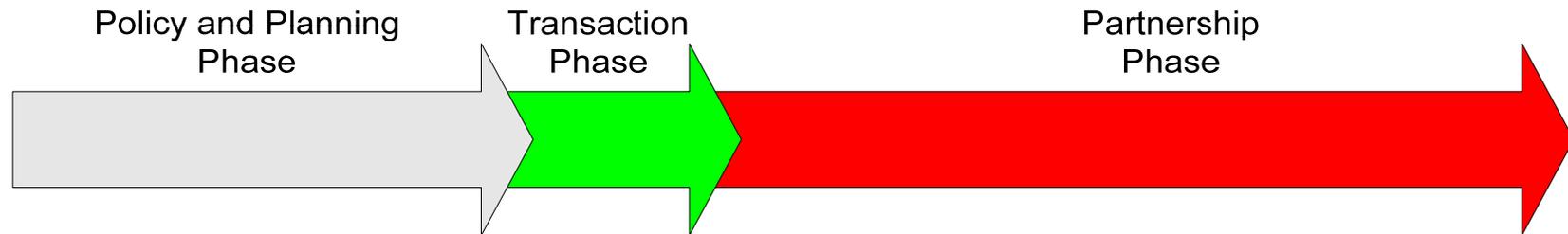
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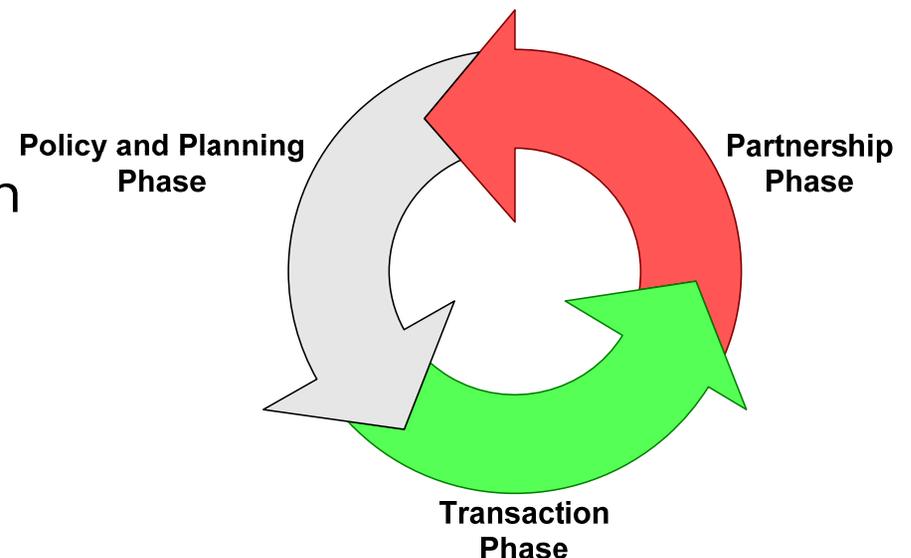
USAID Workshop on PPP

Ain Sokhna, Egypt

PPP Life-Cycle



- The Partnership Phase of the PPP Life-Cycle is of paramount importance, but often completely overlooked.
- The transaction isn't an end in and of itself.
- PPP as a marriage: What happens after the "I Do's"?
- Governments and public authorities must prepare to act as a competent counterpart.



The PPP Partnership Phase

PPP Partnership Phase



- Contract Management is critical to a successful PPP.
- Preparation for contract management must begin in the early stages of the PPP life-cycle.
- Depending on the contract structure, the Partnership Phase will involve many different sub-phases.
- Different expertise needed for different monitoring and oversight activities.
- It is imperative that effective project governance models and skilled personnel are in place prior to contract execution.

PPP Project Governance

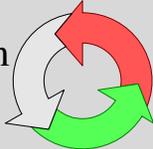
PPP Partnership Phase



- The art of "*Monitoring without Meddling*"
- The Public Partner must retain control of outcomes while the Private Partner directly manage operations and services.
- Political, Contractual and Regulatory Risks:
 - Government default on contractual obligations (i.e. right of way, pricing formulas, etc.)
 - Government meddling in daily operations
 - Failure to ensure contractual compliance

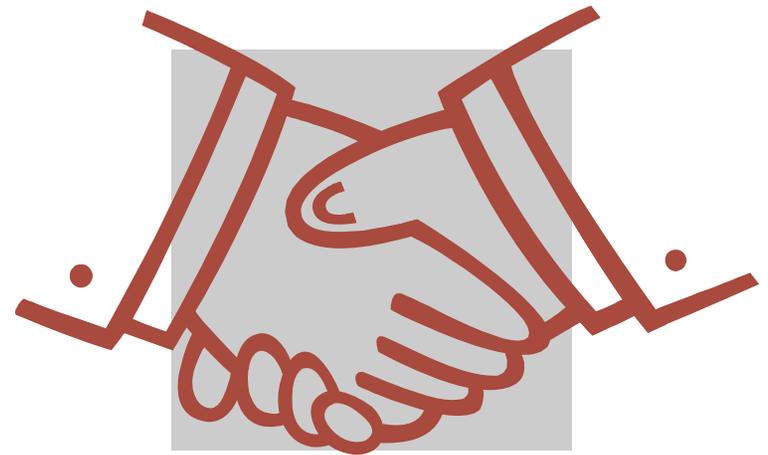
PPP Project Governance

Key Public Sector Activities during the Partnership Phase

Construction Phase	Operations Phase	Termination / Wrap-Up Phase
<ul style="list-style-type: none"> Transition to construction (design / build, approvals, expropriations, etc.) 	<ul style="list-style-type: none"> Performance Monitoring (i.e. availability, output and quality standards, etc.) 	<ul style="list-style-type: none"> Project Wrap-Up
<ul style="list-style-type: none"> Construction Monitoring <ul style="list-style-type: none"> - Permits and approvals - Construction and standards oversight 	<ul style="list-style-type: none"> Contractual Compliance (i.e., operations, maintenance, regulation, financing, reporting, etc.) 	<ul style="list-style-type: none"> Asset hand-back
<ul style="list-style-type: none"> Asset Transfer (when relevant) 	<ul style="list-style-type: none"> Relationship Management (dispute resolution, renegotiations, etc.) 	<ul style="list-style-type: none"> Transition to new service provider
<ul style="list-style-type: none"> Others 	<ul style="list-style-type: none"> Project Assessment  	<ul style="list-style-type: none"> Project & Program Assessment 

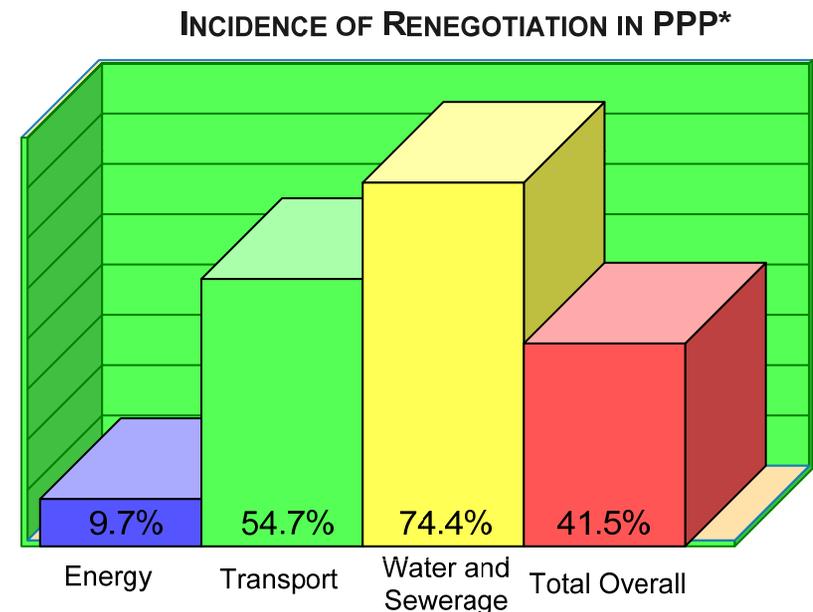
Relationship Management

- As with all relationships, PPP take work.
- Recurring and ad hoc tasks are also an important component of the Partnership Phase:
 - Regulation
 - Dispute Resolution
 - User complaints
 - Renegotiation
 - Stakeholder Consultations
 - Project / Program Assessment
- Planning, budgeting, and training personnel for these activities are critical to a successful PPP project / program.



Renegotiating the Partnership

- Disproportionately high number of projects are renegotiated for a variety of reasons (i.e., unclear regulatory structure, etc.).
- The *Opportunistic Renegotiation*:
 - Government initiative: Usually due to perception of excessive gains.
 - Operator initiative: Often caused by opportunistic behavior (once a private enterprise has been granted a concession, it may use its leverage / regulatory capture to renegotiate the contract to secure a better deal than the original bid).



*Source: Guasch, "Granting and Renegotiating Infrastructure Concessions"

Renegotiating the Partnership

Who initiates the renegotiation?

	Operator	Government	Both
All Sectors	61%	26%	13%
Transportation	57%	27%	16%
Water & Sewerage	66%	24%	10%

*Source: Guasch, "Granting and Renegotiating Infrastructure Concessions"

Renegotiating the Partnership

- The outcome of renegotiations often favor the private partner, contributing to the perception of corruption and causing increased skepticism regarding PPP.

Outcome	% of Renegotiated Contracts
Delayed Investments	69%
Tariff increases	62%
Increased costs transferred to tariffs	59%
Extended concession period	38%
Reduced investment requirement	62%

- Reallocation of rents and risks often negate benefits derived from a competitive bid process.
- Renegotiate only when necessary – oversight must be focused on ensuring compliance with the contract.

Lessons Learned

- Contracting authorities must look beyond the transaction and build capacity for the partnership phase.
- The transaction and “financial close” are not ends in and of themselves.
- PPP place new responsibilities on public officials, who must adopt new skills to act as a competent counterpart to the private partner.
- Planning, budgeting, and training personnel for contract management and monitoring activities are critical components of a successful PPP project and program.



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Thank You!



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