CIRC Global Webinar Series

Report | Managing Risk in SDG related PPPs.

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CUTS Institute For Regualtion and Competition

Webinar Report on Managing Risks in SDG related PPPs

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Moderator: Dr Arvind Mayaram, Chairman, CIRC

Speakers

- Geoffrey Hamilton, Chief at UNECE International Centre of Excellence on PPPs
- Pratish Halady, Principal PPP specialist, Asian Development Bank
- Diogo Faria de Oliveira, Executive Director, Defining Future Options, Portugal
- Adeyinka Amaedi Iyanda, Public Policy, Procurement & PPP Specialist, Said Business School, University of Oxford
- Syed Afsaruddin, PPP Policy Advisor, Ministry of Finance and PPP Development Agency, Uzbekistan

Mr Geoffrey Hamilton, chief of UNECE International Center of Excellence on PPPs is also chief of the partnerships and cooperation section in UNECE. UNECE has been working in the area of public private partnerships (PPPs) for over 15 years, creating practice-based knowledge to address the challenges governments face and using PPPs to modernise infrastructure and improve public services. He has been the driving force behind numerous international conferences, awareness raising workshops and development of guiding documents on best practice, including a guide on promoting good governance and PPPs, which need wide recognition. International Center of Excellence, which was established in 2009 with Mr Hamilton's pioneering efforts, explores the best types of international PPP projects and assists countries in implementing such projects.

Mr Pratish Halady, principal PPP specialist in Asian Development Bank, has over 15 years of experience in investment banking, management consulting and operations in the infrastructure and communications sectors. As a founding member of ADB's office of PPPs, he focuses on advising public sector clients on structuring and closing bankable PPP projects, as well as supporting policy and institutional development. Mr Halady obtained his MBA from Wharton School, University of Pennsylvania, and his MS, NBS from Carnegie Mellon University'.

Mr Diogo Faria De Oliveira, Executive Director, Defining Future Options in Portugal, has 27 years of experience in the water sector. Diogo is an independent water expert, he is the founder and executive director of the firm defining future options. At the Portuguese ministry of environment, Diogo is president of the management and support team of the

National Strategic Water and Sanitation Plan 2020 of the National Water Council. At UNECE, he is the president of the affiliated international specialist Centre of Excellence in PPPs on water and sanitation. Internationally, he has working experience in 19 countries in Europe, Africa, Middle East and South America. With a long record of accomplishment of building and managing water and sanitation PPP concessions, Diogo specialises in business valuation, due diligence, long-term sustainability and cost recovery, risk evaluation, negotiation and establishing utilities. Diogo has a degree in Civil Engineering with expertise in hydraulics water resources and environment from IST Lisbon, and post-graduation in improving the efficiency and reliability and water distribution systems from Universidad International Manidaes Pilao, Spain.

Ms Adiyanka Amedi lyanda is a public policy procurement and PPP specialist presently with Said Business School. She has over 17 years experience with an established track record in public private partnerships, privatisation, government policy, donor relations, project management, private sector development, economic reform, contract management, institutional development, strategic policy analysis, analytical and operational and programmes. She has spent the last few years as the team lead, energy and agriculture infrastructure at the Presidency Infrastructure Concession Regulatory Commission in Nigeria, developing structuring and facilitating complex PPPs or other forms of partnership involving commercial finance for basic infrastructure service provisions. She has a Bachelor's degree in agriculture economics from Nigeria, a Master's in public policy and management from University of Manchester in UK and is currently enrolled for an MSc in major programme management from the University of Oxford.

Mr Syed Afsaruddin is a PPP policy advisor in Ministry of Finance and PPP Development Agency, Uzbekistan. Syed is advisor, PPP development agency and Finance Ministry in Uzbekistan and he advises the Uzbek Government on development of their new PPP program. He transformed Bangladesh to a leading emerging market for PPP programme, directly handled $20 billion PPP pipelines over 55 projects, which is impressive. He led Bangladesh to win the 2018 Government PPP Promoter of the Year Asia Pacific Awards. He has over 20 years' experience both public and private sector on PPPs, including advising and leading PPP programmes, developing and implementing policies and structuring transactions. He qualified as a lawyer before joining Her Majesty's government in UK as a civil servant in their fast stream programme. He was chief executive officer, PPP Authority, in Prime Minister's office in Bangladesh from 2012 to 2018.

Introductory remarks by Dr Mayaram

The member countries of the UN have resolved that Sustainable Development Goals (SDGs) must be achieved globally by 2030. One of the major aspects of this aspiration is the promotion of collaboration with the private sector to mobilise both finances as well as expertise.

An important aspect of PPP projects is mitigating risk in social infrastructure projects. Risk, in any case, is at the heart of any project, private and public, but in PPP, it takes on a new dimension because PPPs are a relatively newer format for creating and maintaining public infrastructure and services. Government or public sector undertakings, which are driven by the objective of public good and inclusiveness, combines the private sector objective of profit in a PPP project. Therefore, to find a balance between the two and to allot risk appropriately between the two competing objectives becomes very critical for its success.

In the advanced economies (AEs), PPPs have been operating for quite a while including in social services, for instance water supply, sanitation etc. The PPP frameworks are very well established and the financials are clearly defined. However, in developing countries and emerging market economies (EMEs), the experience with social sector PPPs is sketchy and it has not been very widely practiced. The reasons why they have not taken off needs to be discussed seriously. This is especially true for sectors such as education and health services that require the principle of equity to be one of the guiding principles while designing to delivery of the services. PPP projects, unlike many other projects, are long term, of fixed duration and fixed cost, and have diverse stakeholders that make these arrangements very complex. The risks involved in PPP projects come mainly from the complexity of the contract, technical and financial specifications, performance guarantees, economic cycles over long concession periods, etc.

It is interesting to see that initial PPP projects prior to 2008 were long-term projects of 25-30 years with fairly stable forecasting of how the growth in revenues will be or how will demand increase. Based on these, specific contracts with fixed cost over a period of 20 to 30 years were being designed. However after the global economic meltdown in 2008, the economic cycles have shortened. The credibility of economic forecasting has become questionable because of volatility and unpredictability. Over long concession periods, very often risks shift from one bucket, i.e., from public sector to the private sector and vice versa. Therefore, the traditional contracts are not functional for PPPs in most countries.

In India, many projects have come under stress because they did not factor this volatility in the concession contracts. Now the one issue which comes up again and again is the payment to service provider that is linked to quality of service delivery. This is predicated on the maintenance of the assets over 30 years and it is expected that if it is maintained at optimum levels, then the service standards will automatically be met. The problem is that over 30-year periods, the performance standards also change because of technological changes and obsolescence in technology. Therefore, a service-level standard that you had contracted right in the beginning of a concession often becomes obsolete over a period of 20-30 years. Therefore, one would have to also factor in the need for revising the performance standards, as the world moves into more complex technologically driven economies. This is the other issue that perhaps we need to look at to see how we deal with this particular aspect of the changing paradigm of performance and how this can be factored in.

There are several other issues for PPP projects but one of the big issues here is government policies. They cannot be fixed in time, because ultimately they are driven by the demand of the people, especially in a democratic country. In a country like India, with large rural to urban migration, the aspirations of the people change and therefore their demand for the type of services they require also changes. When demographic changes take place, when people move out of poverty into what we would call some semblance of middle class, prosperity is anticipated as you go forward; in fact, one of the objectives of achieving SDGs also is to tackle the issue of poverty and how to eradicate it completely. There is also the change in aspirations of the people and the parameters of a service designed earlier have to be changed.

For instance in rural India, not everyone has piped water (even though the government has ambitious plans to achieve this in the near future) and unlimited power supply. There is a standard of, say, 110 litres per capita per day to be supplied to the rural areas, but after 10 years when these areas get urbanised, and the requirements of the people change, supply would have to be increased. The parameters may have to be changed from four hours a day; the requirement would be 24x7 water supply. So how do you factor those into the PPPs? These create uncertainty in the PPP environment.

The other aspect of social infrastructure project that needs tackling is the question of affordability. Some kinds of infrastructure where access can be restricted is based on pricing. For instance, in an expressway project, a large number of people who do not own cars can be restricted. In this case, the assumption is that those who own cars can afford to pay the toll at a higher level for the maintenance of the expressway. It is possible. Similar is the case for airport or ports, where target is a specific user group that can afford to pay for the services.

However, it is different with Railways, which carries a huge number of poor migrant labour from one place to another. There too graded user fee can be imposed- passengers travelling in the lowest class of travel get subsidized tickets whilst those travelling in the higher classes pay more, fully or partially subsidizing the tickets of the lowest class of travelers. However, in case of supply of water it is difficult to make any such discrimination because of network related issues. How does the government ensure affordability?

In the present-day situation, institutional finance is squeezed in on account of capital adequacy and Basel norms, which have made it more and more difficult for the banks or the financial institutions to lend beyond a point. There is also an effort to eliminate shadow finance and move towards institutional finance. How do we then provide enough long-term finance to these kinds of projects and where does this finance come from? For instance, the capital markets are flush with liquidity but then how do you tap these finances with all the PPP associated risks? How can capital market funds be attracted into infrastructure to be able to move the PPP agenda forward?

Geoffrey Hamilton

The UN Sustainable Development Goals (SDGs) were adopted in 2015. The public sector of AEs have sufficient funds to deliver universal access to healthcare and renewable energy or deliver other social sector services. For this category of countries, the greater issue is maintenance of these assets and services while continuously upgrading the service level standards. PPP models have to be the way forward to achieve this goal but NGOs throughout the UN system have been saying, 'Are you mad proposing PPP as a solution to the SDGs?'

Therefore, the member states of the Economic Commission for Europe decided to rebrand PPP in a way that was not cosmetic but a serious effort to structure PPPs as a discipline. So UNECE has embarked upon the endeavor to develop People First PPP, which provide value for people in addition to value for money, broadening the scope of traditional models of PPP and telling the public and private sector that they've got to up their games. They have to develop a new mentality. It is not business as usual.

It is in the low-income developing countries, where the battle for achieving the SDGs will be probably won and lost. A concerted attempt must be made to develop standards in People First PPP. There has been a total failure by the UN and multilateral development banks in capacity building. The World Bank has probably waved the white flag of surrender in this aspect.

In capacity building, our governments need hands-on help to deliver effective projects and pipelines of projects but that hands-on help is not being provided effectively. There is circular capacity building that leads nowhere. In addition, once governments officials acquire the skills required, they are off to the private sector in the blink of an eye.

The UNECE is looking at new ways, where the public sector is still in charge; capacity building cannot be privatised but PPPs can be seen as a way of improving the capacity of governments to deliver.

The PPP unit of the Scottish Futures Trust developed a capacity building programme which allows a hub company to establish a PPP unit working under the government to deliver effective partnerships. Models like this should be brought to deliver municipal services successfully. Stakeholder engagement is extremely important. Risk can be lowered by getting consumers, customers, communities and citizens involved in designing projects not rhetorically but actually involved in the design, even involved in the operation and management of this project. Some guidelines have been developed on this with an evaluation methodology which could be a gamechanger.

In India, if stakeholders can be involved, it would help achieve the goal of a risk-free environment. How to channel the ingenuity, the capacity of stakeholders, including women? Women should be involved in design of projects.

Mr Pratish Halady

At least 7 or 8 of points raised need separate discussions. Two of these relate to social infrastructure.

Public sector agencies want to do PPP to attract investment, to alleviate their own financial burdens. Operational efficiency is a key aspect of PPP, particularly in the social infrastructure area. incentives should be aligned throughout the concession period, rather than just at a certain part of it.

Studies show that PPPs, if well-structured, reduce cost overruns and ensure that projects are delivered on time, which are the very key to the objectives of government agencies. Evaluation should not be based simply on the construction cost; there are incentives for completing construction as soon as possible, so that profit can start to be earned by the private partner from the operations.

The general rule of thumb in PPPs is to allocate risk to the party that is best placed to manage that risk. This varies quite a bit from one project to another and from one sector to another, say, a port project and a public school facilities management project, the latter being in social infrastructure.

Right of way and resettlement risk should be passed to the public partner because they are best placed to do that. On a port project or an airport, risk can be passed to the private partner. But in social infrastructure projects, the payment mechanism is more often an annuity type of payment or an availability type of structure. What this means is that the government is effectively paying during operations for the service that the private partner is providing to ensure that the facility is available to the public. This allows the public partner to maintain or to minimise the cost to end-users.

The private partner typically would not want to take market risk in a health or school project. They would like to be remunerated through fixed annuity payments or availability payments from the government. The public partner would not have to raise those revenues through the market. Recently in Uzbekistan, the Ministry of Public Education wanted to do a school as a PPP project but didn't want the end-users to pay because it's supposed to be a public service. The government will make the annuity payments.

The annuity payments actually have to cover all the costs of the private partner because that is their only source of revenue. This includes coverage of their capex, fixed costs, variable costs, debt-financing costs and equity return that they would need in order to justify their investment. Finally, penalties for non-performance, which is a key aspect. Typically, on these availability payment or type of projects, fixed payment is being made to the private partner but incentives are aligned throughout the operations period. Service provision has to be properly benchmarked, monitored and insured throughout that operations period. Therefore, various KPIs must be set out in the PPP contract.

For a water project, a major KPI, for instance, could be the water pressure, which has to be above a certain level. So the contract will have this requirement and if that requirement is not met, then there would be penalties. That way, the private partner knows that there is a financial incentive to continue to provide that quality of service. Importantly, the contract will stipulate that an independent engineer should be hired to verify compliance with the KPIs periodically.

ADB has a four-pillar approach to PPPs. The first two pillars are on the macro side: on policy, on ensuring capacity building, institution building, legal frameworks. These are key aspects, building blocks of how a PPP agency or how PPP programme in a country can be successful. Pillar 3 is project development, where advisory and project preparation services are provided. Again, one key aspect of risk allocation is to ensure that proper project preparation is done upfront. Transaction advisory and technical assistance can be provided to public sector agencies. Lastly, in Pillar 4, ADB can provide project financing through its non-sovereign lending window and provide sovereign guarantees through its sovereign window. ADB has the ability to support public sector agencies across the entire spectrum and value chain of PPP development.

Diogo Faria de Oliveira

In 2050, there will be 9.3 billion people and two-thirds of these people will be living in urban areas. This presents a huge urban planning challenge: how to manage cities with Climate Change, droughts and floods and with extreme events of tornadoes, heavy rains and so on. On top of this, Coronavirus is creating delays in procurement, construction, supply chain interruptions, mainly in Africa what is the role of PPPs in the middle of these challenging times? PPPs are not a goal and objective of the government. They are a tool that should be applied only where the private sector performs better than the public sector. They must be better in expanding network coverage in the case of water, for instance, increasing quality of service, increasing operational efficiency, reducing cost of service and assuring sustainability.

Projects face risks regarding over-runs in construction, problems with the technology, problems with forecasting population and demand. The public sector has to understand that the private sector alone cannot bear the cost of this pandemic and vice versa. PPPs are seen as viable tools to boost economic recovery. Many governments, including those in Asia, have already announced new PPP programmes for the recovery of the economy after the pandemic. This should help closing the financial gap as well. For instance, in the water sector, $130 billion per year is required to be spent up to 2030 to comply with the SDGs. PPPs that are more resilient will appear with more transparent contracts, with less blurred clauses, with less grey areas, more black and white contracts.

Adeyinka Amaedi Iyanda

By committing to SDGs, what countries are invariably saying is that they're pursuing progress on economic, social and environmental targets in a balanced and integrated manner. SDGs are cross-cutting and quite ambitious and therefore, it requires a shift in how work is done under a PPP. There is a need for more collaborations between the private sector and the public sector. Examples are available of successful implementation of PPPs in the economic sector in developing countries. For the social sector, the learning process is on. In order to enable the private sector to achieve reliable returns, the government and the public sector must be more aligned with the private sector's interest. Multilateral development financing solutions should provide support. Policies must be created that are well-aligned and clear, and are separate from the more economically advanced projects.

Governments are designing and implementing government-supported infrastructure funds that can make these social projects more affordable and accessible to the public, like that of the Nigerian government. The Sovereign Wealth Fund has entered into some partnerships that finance global participants of the healthcare sector to establish PPPs. Some types of funds from the public sector could also help in achieving SDGs with the active participation of the private sector.

Capacity building is critical because the public sector frequently struggles in this regard. Having specialist Transaction Advisory Teams working with the public sector to deliver on this mandate is critical. Governments should also think about setting up dedicated teams that are experienced in managing, driving and implementing infrastructure PPP projects across the nation, primarily because after being given frequent trainings, either they are transferred to another department of government or they leave government service. Hence, dedicated teams are needed that retain capacity and capability throughout the life cycle of the project. When designing policy documents, they must be integrated with SDG goals. Water must be seen as a renewable energy source. Further, policies and guidelines must be put in place that are sustainable, implementable and capable of achieving universal healthcare coverage, water provision and sanitation for countries.

Mr Syed Afsaruddin

In Bangladesh, the focus was, till recently, on economic infrastructure: power, roads and so on. Health sector was not on the list of projects to be pursued under PPPs. The immediate hurdle was to understand the notion of how can PPPs be delivered and aligned with the fact that in Bangladesh, health services are meant to be free.

There is a reluctance to incorporate private sector in the development effort because of the profit element attached to it and its impact on cost and pricing. In hospitals or health services, there are many public servants involved. The challenge is to try to convince the government to look at PPPs in the social sector, given their potential impact in terms of pricing. Case studies from India, Romania and Philippines were used for promoting the development of dialysis projects in Bangladesh, which is now finally in operation. Capacity building is pivotal to broaden the application of PPPs in the social sector. In 2015, Bangladesh appointed a principal coordinator on SDG affairs in the PM's Office.

UNECE has highlighted accessibility, equity, efficiency, effectiveness, sustainability and repeatability. Much more support is needed from academia in terms of integrating some of these values. Change is needed in ways of selecting and identifying projects. The Ministry of Planning and the Ministry of Economy need to get involved in this process. DFIs and multilaterals need to step in, as well. Many more examples and citations must be given to governments in terms of how to integrate SDG components into the policy-making decisions for investments.

How to ensure long-term commitment to SDG components? The first step is evidence-based decision-making rather than populist measures; rather, they should be done keeping in mind citizens' needs. The other thing to keep in mind is to focus more on needs rather than asset creation. A lot of government investment is focused on asset creation or asset enhancement, rather than focusing on needs. Some of the largest companies in the world do not own any assets, for example, Uber, Amazon, Alibaba and the likes. The government's assets should be repurposed.

The government is probably the largest asset-holder in the world. Repositioning is needed in a world gripped by Covid-19, where assets are being used in a certain different manner.

In terms of a long-term perspective, PPPs can help to ring-fence funding but we need to look at development of specific PPP-based funding envelopes. Government budgets are annual. They do not look at long-term funding, creating uncertainty in terms of supporting availability of payments long-term. There is a need to look at the government's budgetary systems, so that they are aligned to support long-term PPPs'.

Dr Mayaram

Standards in terms of best practice always come out of an advanced economy or a developed country practice. It has been observed that 'What's best is the enemy of the good', so when you have standards which seem very difficult or require a major change, say in the cost entailed, then very soon, governments lose heart and believe that it's much better to go by your own manner of procurement, rather than the PPP route. Have standards been set which do not keep in view the capacity of the developing countries to adhere to them? Would it be better to incrementally push them towards higher standards, rather than setting the bar so high that they get dissuaded into going into that field? These concerns also have to be answered.

Geoffrey Hamilton

The UN is not doing a great job in implementing the SDGs. It is not doing a great job in incorporating PPP, to transform it into a tool that is necessary.

We know that we have to scale up; we know that we have to make an impact; we know we have to transform the societies to do this. How do we get standards to be applied effectively by low-income countries, where the battle for the SDGs is going to be achieved? It is a slippery slope. Countries like China and India made great advances on technology and went on to an accelerating mechanism.

Care is needed when lowering expectations on standards: the standard should be reasonable, one that all types of countries can deliver. The experience has been that conceptualising evaluation methodology and scoring projects to see whether they were compliant with SDGs, took around three years. This was one of the key questions: whether a better score should be given to projects in low-income countries. We all know that while the state of South London is not so bad, South Sudan is quite difficult and hence, the major conundrum was that should not the project in South Sudan get higher marks. It seemed to be self-evidently true.

Experts from the European Union, such as Spain and France, argued that this was discrimination against European countries. This proved a major point of contention in devising evaluation methodology that still isn't finished yet. A few more points can be given to projects based in low-income countries where the risks are much higher. Easing the standards is not the type of development that's in the interests of our low-income countries.

Syed Afsaruddin

In countries like Bangladesh and Uzbekistan, the choice seems to be getting things done at slightly lower standards, since it would be more affordable. If it's expensive, then the question becomes whether such a project should be pursued in the first place. That's quite a challenging decision for policymakers. Finance in most developing countries comes from abroad and hence, most of these countries have signed up to equity principles or to World Bank or ADB standards. Therefore, governments do tune up their local standards to meet international ones.

This is where MDBs or DFIs can support the government by giving concessional financing. Citizens of the world have the same rights and there should not be a difference of value attached to human beings depending on where they reside. Quality standards should remain at the right level. The MDB is providing additional support to developing countries with concessional finance. PPPs do not attract concessional finance, primarily because of the inflow of private commercial banks. That is a thought other participants and families, maybe politicians can ponder over.

Dr Mayaram

Multilateral financial institutions have their own limitations; there is a country limit for sovereign lending as well as private sector lending. For instance, ADB would have a country limit for India of, say, $4-5 billion a year. This is not an adequate amount for infrastructure development. Take a look at the amount of money which has gone into developing medical infrastructure since the Covid-19 outbreak. When co-financing with the private sector comes in, costs go up. If we hold very high standards, the cost of delivery is going to be much higher. Therefore, it is possible to mitigate some part of that cost by lower cost finance, which is driven by MDBs for this purpose.

Pratish Halady

For broader infrastructure needs, at least in Asia, total DFI funding is a very small amount. Therefore, the question really is how to use MDB support strategically. Here it comes down to this question: For the construction of a road costing $300 million, should the whole loan come from MDBs or can the project be creatively structured so that only a part, say $30 million of MDB financing is provided through viability gap funding (VGF), enabling private sector participation. But the private sector may not show much interest because the project is not bankable.

The MDBs (at least the ADB) have developed several products that can actually make PPP projects bankable without stretching those limits. One example is VGF. This was done on the Dhaka Bypass project in Bangladesh (this was not done with the MDB but it could have been). Effectively, a $27 million VGF made a $300 million project bankable.

Also, MDBs can provide guarantees. In the annuity payment type of structure described earlier, one problem with, say, municipal water projects, is that the counter-party being a local municipal entity may not have the credit-worthiness to make those payments. Here, MDBs can provide a guarantee on those payments. To reiterate, MDBs can provide funding that is just enough to let that project be bankable for private sector participation. This is increasingly an area that ADB has been very focused on: how can we bring PPP and our sovereign capabilities together to do things that either of the two sectors could not do on their own.

Diogo Faria de Oliveira

It is expected that a PPP will solve problems within a few years that were not solved in decades or even in a century. Take, for instance, the water sector in a developing country. There are difficulties in delivering water, of sufficient quality and quantity, 24 hours per day. It is expected that a PPP can solve this, as they concentrate the capital investment in the first 5-7 years It is expected that a private operator will solve everything within these 5-7 years. Hence, the standards are set very high. For instance, they are expected to deliver water 24 hours per day in a sufficient quality within the next five years, to 80 per cent of the population. This requires a huge amount of investment and effort, and then the price is necessarily higher.

When dealing with standards, performance indicators and targets on PPPs, they have to be put together realistically in order to ensure affordability. At one point, you have to compromise either of the two: delivering the service to all and delivering the service at an affordable value.

For instance, in a project in Angola, it was necessary to increase the coverage to the population and multiply it at least by five but at the same time, the population was increasing. When you deliver water, the habits of this population change because they no longer go with the bucket to a fountain or a river. With water on tap, the per capita water consumption increases. Multiplying more coverage with more people and with more consumption in some places, you have to multiply the capacity of water treatment plants by 13, for instance.

Care has to be taken when dealing with a private operator in imposing targets and investment, because the perceived risks of these private operators are very high, especially in developing countries. If they perceive a high risk, they just do not bid for that project or they bid with a higher premium on it, which again increases the price. This happens all over the developing world. Plan a project very carefully, gather data, make master plans, make a forecast, conduct sensitivity analysis just before a tender is put out, or run the risk of having a deserted procedure or a bidding procedure that does not meet expectations.

Dr Mayaram

While standards must be kept high, we must try and see if we can mitigate the cost aspect of it through a better financing model. How has Nigeria looked at these things?

Adeyinka Amaedi Iyanda

Some of the specific challenges are delays in government approvals, guarantees or credits. There are challenges with an imperfect legal or regulatory system and, sometimes, even legal changes. Another risk that frequently pops up is public objection to the PPP. Of course, financing risk is always at the top of that, political risk, change in government or administration, insufficient capacity of government entities and sometimes, poorly handled bidding systems. Methods have been devised that could mitigate against some of these risks.

With regard to delays in government approvals, we have tried to create a system where we bundle many of the activities to shorten processes. Bundling of activities helps and then you could have single-stage procurement processes, which limits the number of times approvals are required. Then, to tackle poor bidding systems, capacity building and a rigorous procurement process can be put in place. And of course, this process should include credibility, flexibility and competition. To take care of legal changes, political risk and *force* *majeure*, proper contract management, contract implementation, adequate allocation of the risks, identification of risks, maintenance of sufficient room for renegotiation of contracts are available. Proper clauses that allow for effective arbitration are being instilled in PPP process and guidelines to make it sustainable, manageable and beneficial to both parties.

For financing risks, a VGF that is supported by the government is under implementation. An infrastructure fund has been put in place under the sovereign wealth fund to try to develop infrastructure products. Upfront financing to support the project can be opted for and guidelines are under development for annuity-type PPPs in view of the budgetary cycle, which can be very complex and a bit tricky. To handle aspects of insufficient government capacity or poorly designed projects is a big issue. There is a constant outreach to multilateral development banks to support ministries, departments and agencies with adequate training and skills. These are necessary to develop projects, to identify them and to manage the procurement process, including contract management, specialist advisory teams to support the entire process and proper frontend planning with our Planning Ministry and coordinated efforts. PPP units are established across all ministries, departments and agencies that are interested in or have a PPP project. A framework for coordinating all these projects has been set up. Then for imperfect legal regulatory systems, a firm from India, IDEC, was engaged for support and the IMF is also providing support to develop more extensive guidelines that go through the nitty-gritties. To address certain social infrastructure and standardisation aspects, a phased approach is attempted during implementation of projects. Pilot projects, standardisation of contracts and VGF can also support this. For developing countries, a phased approach is needed, so instead of saying you need to reach 80 per cent or 100 per cent at the same time; you can start with 40 per cent and phase it through the life of the contract. Similarly, instead of 10 locations, we take it in one location in the first instance. Those are some of the ideas, suggestions and frameworks put in place to manage the risk that could accrue from social infrastructure projects.

Mr Narayan Purrel from Mongolia

What is the main measure to mitigate risks to deliver better service for PPP infrastructure?

Syed Afsaruddin

The main measure to mitigate risk is to look at the risk mitigation matrix and then identify who is actually at a better place to address these risks. In the UK, there is lack of flexibility for PFIs and this is one of the main challenges they face when they enter into long-term contracts which are not flexible.

Governments should be looking at delivering projects in a shorter period, understanding that they will need to look at government availability payments being increased in order to pay for the assets in time. This ensures that your contract will not necessarily be out of sync with prevailing social needs. Once the asset is backed by a government, it can obviously re-programme and revise it.

Why see PPPs as different from what governments do? The PPP should be viewed as one of the different fiscal instruments that the Ministry of Finance has, in order to deliver the investment needs of the country. Some work needs to be done to integrated and embed PPPs as part of public procurement. The guidance given to civil servants is important.

Concluding remarks by Dr Mayaram

In India, PPP training is embedded in the fundamental training programme for all civil servants, so that it's not specific to those handling PPPs. This learning of governance skills is important. I think it is a very critical and important programme.

In the next 2-3 months, we will come back with another webinar on the rapidly changing environment and how to look at long-term contracts. We will specifically focus on the kind of flexibility we can bring to it. It should add to our understanding of how we can do People First PPPs or achieve SDGs more effectively and make it more attractive for the private sector. This includes the aspect of shifting risks: how to create an environment when at a particular point of time, the risk can shift to the other party and vice versa. And how to devise a methodology to be able to adjudicate what are the circumstances in which risk must get transferred from one to the other.