Punjab Devolved Social Services Programme

PPP Strategy for the Social Sectors

Presentation in the P&D Board

Programme’s Mandate & the MOU

- Development of a PPP Strategy was a 2nd Tranche Action
- Approval by the Provincial Cabinet is required
- Only Action among 12 Policy Actions that was given ranking of ‘Partial Compliance’
- Implementation of the PPP Strategy by the PLDs, DGs & Programme TMAs is a 3rd Tranche Action
- PDSSP’s MOU signed with the LGs stipulates undertaking PPPs on an increasingly larger scale; through 10% of the Programme Funds for the 1st Year, 15% for the 2nd Year and 25% for the 3rd & last year
The Consultant Team

A 3-member Team of International Consultants worked:

1. Bart Budding--- Rebel Group, The Netherlands
2. Jeroen in ‘t Veld--- Rebel Group, The Netherlands
3. Claire Hughes--- Social Development Direct, UK
Stakeholders Consulted

- The Consultants met:
  - Chairman P&D, Chairman Think Tank, Finance Secretary, Secretary HUD&PHED, Secretary P&D, Member-III P&D, Secretary Special Education, Special Secretaries Health & PHED, PDs of PRMP, PESRP, UPU & PCWSSP, PEF & PHF
  - NCHD, PRSP, Pakistan Centre for Philanthropy (PCP)
  - FMH System, CARE, Shalimar Hospital, Pakistan Medical Association, FIGO-FPAP, Rising Sun Institute & Sudhar-ITA Alliance
  - LUMS & FCC
PPP Strategy Document – the Contents

- Purpose & Scope
- What in fact is a PPP Strategy?
- Theoretical Framework
- Conditions for Successful PPPs
- Regulation & Regulatory Bodies
- PPP Units & their Role
- What PPP is not about
- Policy Framework
- Situation Analysis of Social Service Provision in Punjab
- Case Studies of PPP Arrangements in Punjab
- International Best Practices
- PPP Strategy
- An Annexure on International Experience of PPPs in the Social Sectors
109 Case Studies identified in the literature reviewed

44% of them were from Africa or Asia

72% of the case studies involved less complex types of PPP models such as service contracts, management contracts as well as Implicit PPPs

Almost all the experience of more complex PPP models came from the WSS Sector; therefore stronger track record

In Health, there is growing PPP experience

In Education, experience in developing countries remains limited

An almost even balance in the 109 case studies b/w the number involving not-for-profit organizations & those involving for-profit orgs

In Health & Edu sectors: bias towards working with not-for-profits orgs, whilst in the WSS sector, for-profit providers dominate
PPP- Definition

The most appropriate Definition:

“A Public-Private Partnership is defined as any arrangement between a government and the private sector (inclusive of CSOs) in which the traditional public activities are performed partially by the private sector.”

(Savas, 2004)
Rationale for PPPs

- Can be viewed within the larger debate of the *Role of the State*

- Have the potential of contributing to the MDGs attainment; China’s example in front of us

- Imbibing good practices from the private sector

- Innovations rather than ‘one-size-fits-all’

- Geared towards Efficiency + achieve adequate resource mobilization

- Potential of raising service delivery standards

- Aiming at Quality in Service Delivery

- Increase coverage of services

- Extending the spread of ‘Positive Externalities’

- Lead to Corporate Social Responsibility; PCP working on it
The PPPs-MDGs Relationship

The MDGs require collaborative solutions and call for Partnership & Responsibility

**Partnerships:** because no one government or institution can go the distance alone

**Responsibility:** because the Goals are a joint commitment made by global & national communities
What PPP is really about?

- A PPP arrangement between the public sector and the private sector is aimed at **creating value for money**:

  1) Through the joint realization of a public interest service or project;
  2) By a public entity and a private sector entity;
  3) With significant risk borne by the private sector entity in the delivery of basic services;
  4) Through ideally a formal but possibly an informal agreement;
  5) But always with ‘private’ investment being at risk
Synergy with Other Government Initiatives

- Conscious effort to develop synergies so that nothing herein happens at cross-purposes

- This Strategy to fit in nicely in the Private Sector Development Strategy to be formulated under SP-2 of the PGEIP

- PGEIP’s PPP Framework & this PPP Strategy to be in consonance & complementary

- Creation of PPP Cell in the P&D was also assessed/understood by the Consultants

- Consultants also studied Federal PPP Law and standardized PPP Provisions

- Also studied was the draft Punjab Infrastructure Development (Public-Private Partnership) Act, 2007
Strategy’s Analyses of Existing PPPs in Punjab

- Recognizes the PEF Model, Fatima Memorial Health System Partnership and the CARE Model as proper PPPs
- NCHD and PRSP Models adjudged as ‘Implicit PPPs’
- Clear reasons assigned for the assessment/conclusion; SWOT Analysis employed in each case
# Assessment of Match with PPP Criteria (FMH Model)

<table>
<thead>
<tr>
<th>PPP Criterion</th>
<th>Y / N</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Criteria private partner</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strict budget constraint</td>
<td>Yes</td>
<td>Payment of a fixed fee per student</td>
</tr>
<tr>
<td>Not majority owned by Government</td>
<td>Yes</td>
<td>Nongovernmental organization</td>
</tr>
<tr>
<td>Not majority funded by Govt.</td>
<td>Yes</td>
<td>FMH is not funded by the government (though they are paid for their services)</td>
</tr>
<tr>
<td>Able to make decisions independent from the government</td>
<td>Yes</td>
<td>FMH is acting independently</td>
</tr>
<tr>
<td><strong>Criteria Project</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Joint delivery of public service or project by public and private party</td>
<td>Yes</td>
<td>NGO delivers the service, and the government provides funding based on performance</td>
</tr>
<tr>
<td>Significant risks borne by private sector entity</td>
<td>Yes</td>
<td>All costs of educating students have to be paid by FMH (in exchange for a fixed fee) and FMH receives less money for every student that drops out of the programme</td>
</tr>
<tr>
<td>Cooperation is based on formal or informal agreement</td>
<td>Yes</td>
<td>Formal agreement</td>
</tr>
<tr>
<td>“Private“ money is at risk in the delivery of the service</td>
<td>Yes</td>
<td>If the costs of education are higher than the fee that FMH receives, FMH will lose money</td>
</tr>
<tr>
<td>Option Condition</td>
<td>Service contract</td>
<td>Management Contract</td>
</tr>
<tr>
<td>------------------------------------------------------</td>
<td>------------------</td>
<td>----------------------</td>
</tr>
<tr>
<td>Political and social commitment</td>
<td>Unimportant</td>
<td>Low to moderate levels needed</td>
</tr>
<tr>
<td>Local and National government policy: favorable PPP environment</td>
<td>Unimportant</td>
<td>Low to moderate levels needed</td>
</tr>
<tr>
<td>Legal Framework: monitoring</td>
<td>Minimal monitoring capacity needed</td>
<td>Moderate monitoring capacity needed</td>
</tr>
<tr>
<td>Market structure: autonomy of social service provider</td>
<td>Unimportant</td>
<td>Important</td>
</tr>
<tr>
<td>Cost recovery (tariffs)</td>
<td>Not necessary in the short term</td>
<td>Preferred but not necessary in the short term</td>
</tr>
<tr>
<td>Taxation, accounting &amp; taxation frameworks</td>
<td>Required</td>
<td>Required</td>
</tr>
<tr>
<td>Financing issues: access to capital markets</td>
<td>Not necessary</td>
<td>Not necessary</td>
</tr>
<tr>
<td>Technical &amp; organizational issues: availability of data</td>
<td>Possible to proceed with only limited information</td>
<td>Sufficient information required to set incentives</td>
</tr>
<tr>
<td>Trust</td>
<td>Limited level needed</td>
<td>Significant level needed</td>
</tr>
<tr>
<td>Stakeholder Support</td>
<td>Unimportant</td>
<td>Low to moderate levels needed</td>
</tr>
</tbody>
</table>
Types of Contracts

Service Contract
- Maintenance of equipment
- Security services
- Cleaning services
- Ownership: remains with public sector
Risk profile: private sector receives a fee for their services
Duration: 5 – 15 yrs. approx.

Mgt. Contract
- Facility management
- Operational management
- Support to delivery of primary process
- Ownership: remains with public sector
Risk profile: Revenue risk with private sector; major investments made by public sector, minor investments made by private sector
Duration: 10 – 30 yrs approx.

Lease
- Full responsibility for providing services
- Operational investments
- Ownership: remains with public sector
Risk profile: Revenue risk with private sector
Duration: 20 – 50 years. approx.

DBFMO / Concession
- Investments into new (DBFMO) or existing (concession) infrastructure made by private sector
- Full system operation by private sector
- Ownership of infrastructure / facilities with private sector for duration of contract
Risk profile: Budget-based: revenue risk with government, Revenue-based: revenue risk with government. Technical, financial, operational risks fully with private sector
Duration: In perpetuity

Full Privatization
Ownership, all risks and responsibilities transferred to private sector
Duration: In perpetuity

Not feasible to start with very advanced PPP models if no experience has been gained in the professional use of Service & Management Contracts to start with.

Ownership / Capital Investment

Uncomplicated PPP arrangement

Complicated PPP arrangement
Two Basic Models

<table>
<thead>
<tr>
<th>Budget-based Public-Private Partnership</th>
<th>Revenue-based Public-Private Partnership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Characteristics</td>
<td>Characteristics</td>
</tr>
<tr>
<td>▪ Typically less advanced contracts (service contracts, mgt. contracts)  → but not always</td>
<td>▪ Typically advanced contract models (lease, concession)</td>
</tr>
<tr>
<td>▪ Services are provided for free as a policy, or people are not able to pay</td>
<td>▪ Services are paid for by end users</td>
</tr>
<tr>
<td>▪ Should contain monetary incentives (performance payment) nonetheless</td>
<td>▪ Revenue risks is with private sector (fully or in part)</td>
</tr>
<tr>
<td>▪ Does not relieve state budget – on the contrary it could increase long-term commitments</td>
<td>▪ Sufficient ability to pay</td>
</tr>
<tr>
<td>▪ Difficult to scale up</td>
<td>▪ Ideally cost-recovering tariffs, but government may subsidize</td>
</tr>
<tr>
<td>▪ Leaves limited space for improvement – more oriented at cost saving than income generation</td>
<td>▪ Revenue generation is a strong incentive for performance…</td>
</tr>
<tr>
<td></td>
<td>▪ …and therefore needs very good regulation</td>
</tr>
<tr>
<td></td>
<td>▪ Income sharing may generate income for government</td>
</tr>
<tr>
<td></td>
<td>▪ Upscaling possible, also due to budgetary relief of government</td>
</tr>
</tbody>
</table>
## When to use PPP?

<table>
<thead>
<tr>
<th>No.</th>
<th>Presence of Service</th>
<th>Existing Quality</th>
<th>Ability to pay</th>
<th>Measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Not present</td>
<td>-</td>
<td>Low</td>
<td>Use PPP</td>
</tr>
<tr>
<td>2</td>
<td>Not present</td>
<td>-</td>
<td>High</td>
<td>Encourage private sector solutions</td>
</tr>
<tr>
<td>3</td>
<td>Present</td>
<td>Poor</td>
<td>Low</td>
<td>Use PPP</td>
</tr>
<tr>
<td>4</td>
<td>Present</td>
<td>Poor</td>
<td>High</td>
<td>Use PPP</td>
</tr>
<tr>
<td>5</td>
<td>Present</td>
<td>Good</td>
<td>Low</td>
<td>Provide subsidized public services</td>
</tr>
<tr>
<td>6</td>
<td>Present</td>
<td>Good</td>
<td>High</td>
<td>Continue current service provision</td>
</tr>
</tbody>
</table>
Situation 1
No service, low ability to pay

- Poor access to services means:
  - No presence or no equitable access
  - Such poor quality that service is effectively non-existent

- Starting point: Budget based
  - Government pays for, or heavily subsidizes service delivery
  - High priority → no services available
  - Limited interest for (for profit) private sector

- Strong reliance on NGOs
- Focus on inclusion of disadvantaged groups
- Service level diversification to relieve budget
- Challenges in upscaling, due to budgetary constraints
Situation 1
No service, low ability to pay

- **Education**
  - Government commits funds for investments
  - NGO may support (partial) operational costs funding
  - Clear performance indicators for private sector
  - If policy allows it: in the long run limited revenue generation

- **Health**
  - Aimed at THQHs and DHQHs → Lower level support does not make use of private sector capability sufficiently
  - Government funding necessary
  - NGO-based, possibly private sector (for profit) management-type contract
  - Limited pool of qualified operators present
Situation 1
No service, low ability to pay

- Water Supply and Sanitation
  - Water supply and sanitation typically revenue based, even if that means only limited cost recovery
  - Investments to be made by government
  - Government subsidy needed for operations
  - Support may be provided by private sector
  - Limited private sector capacity to provide services
  - "Sweat capital" may be provided by end users (as with RWSSP)
  - Clear performance indicators to be included in PPP contracts
  - Stakeholder information / awareness critical in
  - Consider starting with only partial PPPs (e.g. service contracts) to avoid "privatization" perception
Situation 3
Poor service, low ability to pay

- Focus on quality improvement
- Focus on building trust and awareness with end-users
- Starting point: Budget based
  - Government pays for, or heavily subsidizes service delivery
  - Increased quality may cater for (some) revenue in the long run
- Strong reliance on NGOs, limited interest of private sector
- Service level diversification to relieve budget
- Challenges in upscaling, due to budgetary constraints
Situation 3
Poor service, low ability to pay

- **Education**
  - Very similar to situation in which no service is available
  - More awareness creation necessary to build trust
  - Working with existing staff makes this approach more challenging than new service delivery

- **Health**
  - Very similar to situation in which no service is available
  - More awareness creation necessary to build trust
  - Working with existing staff makes this approach more challenging than new service delivery
Situation 3
Poor service, low ability to pay

- Water supply and Sanitation
  - Similar to Situation 1
  - Need for investments by government
  - Need to invest in building trust and awareness
  - Working with existing staff may be a challenge
  - Bigger challenges in infrastructure, since there will be much uncertainty about quality of infrastructure
Situation 4
Poor service, high ability to pay

- Focus on quality improvement
- Focus on building trust with end-users
- Starting point: Revenue based
  - End-users pay for service
  - Increased quality should cater for increased revenue in the long run
  - Government may need to subsidize at the start
- Potentially interesting for (for profit) private sector
- May conflict in some instances with policies (e.g. free basic education)
- Potential for Upscaling:
  - Relief of govt. budget → budget savings can be spent elsewhere
  - Money earned by private sector can be reinvested in expansion
Situation 4
Poor service, high ability to pay

- **Education**
  - Not realistically feasible in the short to medium term; basic education is provided for free

- **Health**
  - Private sector can help improve THQHs and DHQHs
  - Revenue risk could be largely borne by private sector
  - Government subsidy may be required to ensure service provision to the poor
  - Combination with private practice may be considered
  - Close monitoring and regulation necessary in order to guarantee access to all, fair tariffs, and performance against pre-agreed standards
  - If sufficient earning-potential exists, and long-term agreements with government can be concluded, private investors may consider investment in improvements
Situation 4
Poor service, high ability to pay

- Water supply and Sanitation
  
  - Similar to Situation 1
  - There may be limited private sector investments, if revenue generating potential is sufficient
  - Lease-type of models may be used (where government invests, but the private sector takes revenue risks)
  - Also in this situation, it is recommendable to start with uncomplicated contract models
  - People’s ability to pay also enables them to turn to alternative solutions if services does not improve
Tasks and Objectives
Government (Policy Makers)

- Develop PPP policy framework for social services
- Develop standards for PPP projects
- Create unit for PPP in social services in PPP Cell
- Ensure pro-poor provisions are conditional for any PPP undertaking (distinguishing feature from private service delivery)
- Develop exit strategies
- Determine minimum service standards
- Adjust procurement rules and regulations to accommodate output-based contracting
- Cater for mechanisms for budget-based PPPs (accounting system)
- Put a cap on profits of service providers through profit sharing mechanisms.
Tasks and Objectives

Provincial Government (PPP Partner)

- Ensure transparency in procurement
- Develop clear standard contract documents
- Develop standard business models
- Communicate about private sector performance (public disclosure!)
- Aim at developing activities that can be upscaled
- Provide operational funds or investment funds as necessary, depending on PPP model
- Include pro-poor mechanisms in all contracts
- Cater for sufficient freedom for private sector to hire-and-fire, etc.
- See to strong monitoring of private sector performance through regulator
- Determine clear performance indicators for private sector providers
- Make value-for-money (quality to price ratio) most important evaluation criterion
- Support local governments in capacity development
Tasks and Objectives
Local Government (PPP Partner)

- Make use of standard documents
- Ensure it can fulfill its financial obligations at all times
- Communicate about private sector performance (public disclosure!)
- Aim at developing activities that can be upscaled
- Provide operational funds or investment funds as necessary, depending on PPP model
- Demand strong regulation
- Ensure that sufficient competent staff is available, and invest in capacity development.
**Diverse Range of Skills for Successful PPPs**

<table>
<thead>
<tr>
<th>‘Hard Skills’</th>
<th>‘Soft’ Skills</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data Collection</td>
<td>Negotiation Skills</td>
</tr>
<tr>
<td>Needs Assessment</td>
<td>Interpersonal Skills</td>
</tr>
<tr>
<td>Knowledge of Service Standards</td>
<td>Team Building</td>
</tr>
<tr>
<td>Budgeting &amp; Forecasting</td>
<td>Communication Skills</td>
</tr>
<tr>
<td>Contract Specification</td>
<td>Leadership Skills</td>
</tr>
<tr>
<td>Service Delivery</td>
<td>Relationship Building</td>
</tr>
<tr>
<td>HRM</td>
<td>Problem-solving</td>
</tr>
<tr>
<td>Accounting &amp; Financial Mngmt</td>
<td>Facilitation Skills</td>
</tr>
<tr>
<td>Contract Monitoring</td>
<td></td>
</tr>
<tr>
<td>Service Monitoring</td>
<td></td>
</tr>
<tr>
<td>Reporting</td>
<td></td>
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</tbody>
</table>
Important Considerations for PPPs

EQUITY:

- Geographic targeting of the poor as an approach
- Poor & under-served areas are identified & PPPs are used to encourage private providers to deliver services to these areas
- Literature review: here NGOs are preferred partners; they have high level of flexibility which allows them to focus on vulnerable populations such as remote communities or minority/marginalized groups

Quality:

- Clear & measurable performance indicators which should capture both Outputs & Outcomes
- In Health, this can be more challenging as Outcomes can be affected by a range of factors well beyond the control of private provider
- Calls for public partner to play an effective role in monitoring SD by the private partner & take action in the event of poor performance
Important Considerations for PPPs

➢ **Efficiency & Accountability:**

- Clear & measurable indicators again
- Performance-based Contracts
- Good contract management on the part of public partner
- Rigorous enforcement of contracts; In WB’s rankings, Pakistan is ranked 163rd out of 175 countries in this respect
- Alternatively contracts may resort to arbitration as an ultimate way of settling disputes
What Constitutes ‘Enabling Environment’?

- Policies & institutional arrangements
- PPP legislation
- Procurement rules & regulations
- Motivated individuals
- Widespread public support
- Trust b/w parties

Investing in the process of making partners **understand** the objectives, modus operandi for the PPP helps avoid misunderstandings during implementation & ensures better outcomes.

In **negotiating** a PPP, care to ensure that the private has adequate operational autonomy, whilst the public has the ability to maintain a good oversight of the private’s performance against agreed criteria.

Capacity Building at all levels + Development of standard documents & procedures

“Government mistrust towards the for-profit private sector is often linked to the profit-making drive of these organizations. However, this drive can be controlled through the PPP arrangement, provided it is well-designed & enforced.”
Funding of PPPs

- Recommended for the long-term funding:
- **PPP Subsidy Fund** suggested:
  - Subsidies to be used to fund obligations in ongoing or future PPP projects
  - Can only be used for payments to the private sector party & not as an investment grant

**Public Investment Fund (PIF) for PPP Projects:**
- Can help address capital investment shortages
- Provide **loans** to both for-profit & not-for-profit private party or to a project company established specifically for the project
- ‘Soft’ loan conditions should apply
- PIF-PPP can invest **equity** in PPP projects for social services i.e. co-investment
- Long-term to be converted into a commercial facility
### PPP Cell/Unit

<table>
<thead>
<tr>
<th>Task</th>
<th>Purpose and Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conduct market consultations</td>
<td>• To identify potential private-sector partners to stimulate the active use of PPPs</td>
</tr>
<tr>
<td>Propose changes in the public procurement policy</td>
<td>• To allow for output-based procurement and contracting</td>
</tr>
<tr>
<td>Develop new concepts and contract forms</td>
<td>• To develop standardized procedures and develop standardized documents, including modular contracts with the aim to reduce transaction costs and promote professional standards.</td>
</tr>
</tbody>
</table>
| Create an attractive business environment in the social sectors | • To increase the number of potential private-sector partners and trigger competition  
  • See to sufficiently attractive procedures and contractual standards that are acceptable to the private sector |
| Develop the deal flow                          | • To jumpstart the improved usage of PPP-type arrangements                              
  • See to centralized coordination of the development of PPP projects and communicate about it to the public sector and the private sector |
| Conduct stakeholder consultations              | • To ensure awareness, understanding and ownership of the PPP strategy among stakeholders, including the general public  
  • Communicate results of PPP projects to relevant stakeholders                          |
| Liaise with Local Governments                  | • To identify service delivery gaps and consider how PPPs might be used to address them |
PPP Cell & its Environment—Short-Term: Decentralized Contract Regulation by PLDs
PPP Cell & its Environment—in the Long-Term; in an immature market such structure (centralizing expertise) may prove burdensome
Typical Tasks for a Regulator

- Service standard specification & monitoring
- Oversight over delivery of public good functions
- Ensure asset serviceability over time
- Ensure the development of essential infrastructure
- Control over powers to manipulate land values/land speculation
- Control over unfair trading practices
- See to “safety net” regulations being included in PPP projects (life line tariffs for the poor, service standard diversification, cross-subsidizing mechanisms etc.)
- Ensure responsiveness to final customer needs
- Act as an arbiter/mediator
- Enact and enforce decisions taken either as an arbiter/mediator or as a body for final appeal

Purpose: A Regulator is not a mere protector of “public good”; rather provides a viable commercial climate for effective delivery, at the same time protecting the interests of all (potential) users.
PDSSP’s 3rd Tranche Action Implementation

- Approaching it from the supply side; Private sector Partners identified

- Private sector & LGs being initiated into the PPP Strategy

- A few planned/negotiated PPPs of LGs being evaluated on PPP Strategy touchstones

- In Health: Sight Savers Int’l- UK, Contech Int’l

- In Education: The Citizens’ Foundation, Sudhar-ITA Alliance, Extension of PEF’s FAS (??)

- In Special Education: Punjab Welfare Trust for the Disabled

- In WSS- serious thinking is going on; Precedence in Chiniot
Expectations / The Way Forward

- PPP Strategy to be cleared by P&D after this presentation
- To be approved by the CM on a Summary
- Finally approved by the Provincial Cabinet
- Implementation starts under a well thought out plan of action
- Synergies with other parallel initiatives, for instance PGEIP & PPP Cell, to stay intact & be strengthened