Involving Stakeholders in the Design of the PPP Arrangement

Sabino Escobedo, TAG Financial Advisors
Session 4 - What will we look at?

- How will we identify important Stakeholders?
- What is the best strategy for involving Stakeholders?
- How should we deal with different Stakeholder groups?
- Who will 'win' or 'lose' under the Arrangement?
In this Session we look at the issues that Governments need to address in order to involve Stakeholders in Private Participation Arrangement design.

- Government needs to consider the interests of the different stakeholders
- Government will benefit from engaging with the Stakeholders:
  - through better Arrangement design,
  - through the fact that Stakeholders have participated in the design, and their views have been sought and understood.
Identifying Stakeholders

“The first step is to identify important Stakeholders”

Examples of some potential Stakeholders:

- Consumers
- EU Representatives
- Private Firms and Financiers
- NGO’s
- Workers
- Alternative Providers
- Opinion Leaders and other Politicians
- Media
Involving Stakeholders in Design

“In designing the Arrangements the Government needs to consider the interests of different Stakeholders”

Need: To consider the interests of the different stakeholders

Benefits: Engaging with the different groups will ensure that views are understood, and that stakeholder participation in the design is recognized.

Trade-offs: Some interests will conflict:

- There is a need for the Government to trade-off competing interests
- The better the Arrangement, the easier the trade-offs.

Arrangement Design: Designing the new Arrangement generally increases the size of the ‘pie’, making it easier to find acceptable ways to share. Government has to survey and consult to see:

- What people want?
- What people will pay for services?
Involving Stakeholders in Design

“Engaging with Stakeholders offers two additional advantages……..”

- Analysis based on the consultation may show Government better ways to design, with a more equitable distribution of costs and benefits
  - Perhaps too many costs imposed on poorer groups the Government wants to protect
  - Perhaps too many costs imposed on groups that could block the reforms

- Not all groups will benefit as well as they hope for. Their support is more likely if they feel that the design and implementation of the Arrangement is ‘Legitimate’. One way is if they see through the consultation process that all is transparent and fair, and people understand the objectives of the reform

Note: Legitimacy is an issue covered in Modules 7 (Tariff resets) and 9 (Contractor selection)
Box 3.1 Could consultation have helped?

EXAMPLES: La Paz & Cochabamba

In La Paz - El Alto the government focused on extending service through indoor-house connections engineered to first world standards. One target for service expansion was the poorer areas of El Alto. A concession contract was designed and awarded to the bidder that offered the most rapid expansion of indoor-house water and sanitation connections. The winning bidder proposed ambitious expansion targets, which were written into the contract.

As the expansion program got under way, however, it became clear that:

- the newly connected households used less water than already connected households and less than expected.
- This meant lower revenue for the operator, causing financial problems.

The government, the regulator, and the operator addressed the problem by allowing for lower cost connections, such as condominial sewerage. However, this proved insufficient, and disagreements over service in La Paz resulted in Government requests for cancellation in early 2005.

The problems in Cochabamba, Bolivia were significantly greater. After the concession was signed, extensive civil disturbances caused the government to cancel the contract. Many things contributed to the failure of the arrangements, including a decision to require the operator to build an expensive dam. This required significant investment, financed through 35 percent increase in tariffs at the start of the concession and 20 percent increase once the new dam became operational.

While technical and financial design issues such as these played a part in the failure, some commentators have argued that more extensive and open consultation could have lead to a more sustainable arrangement. Examples of apparent consultation and communications problems included:

- Farmers on the periphery of Cochabamba believed that the operator would be given control of their irrigation water. This led to the first major protest against the project.
- Insufficient appreciation that a combination of a rising block tariff and an increase in water supply would result in higher bills. This coupled with tariff increases agreed under the arrangements caused many customers’ bills to increase by 100 percent or more.
- Limited participation of professional associations in the design stages of the concession contract meant that there was no adequate mechanism for addressing concerns of these groups. Two groups rapidly assumed the role of consumer advocate. The long-established Civic Committee, an association that generally represented local business interests in each department, called for modifications in the contract and a freeze on tariffs. The Coordinadora del Agua y de la Vida, which included professional associations and pressure groups such as the coca growers and the irrigation farmers, demanded the outright cancellation of the contract.

Source: Nickson and Vargas 2002.
<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Subgroups</th>
<th>Questions to answer</th>
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<tbody>
<tr>
<td>Consumers</td>
<td>Middle -class</td>
<td>Where do they live?</td>
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<td>Poor, connected</td>
<td>What service do they get now?</td>
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<td></td>
<td>Poor, unconnected</td>
<td>What service do they want?</td>
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<td></td>
<td>Women</td>
<td>How much are they willing to pay?</td>
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<td>What monetary and nonmonetary barriers stop them connecting?</td>
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<td>What are their views on types of arrangement that may be suitable?</td>
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<td>NGOs and community based organizations</td>
<td>NGOs and community based organizations that represent consumers</td>
<td>To what extent does the organization represent consumers?</td>
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<td>Which consumers do they represent?</td>
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<td>NGOs that represent broader interests outside the immediate scope of services in question (for example, the environment)</td>
<td>To what extent does the NGO represent the people in the community or country?</td>
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<td>Which issues are they concerned about?</td>
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<td>What information and ideas can the NGOs offer?</td>
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<td>Workers</td>
<td>Managers</td>
<td>What ideas do they have for improving operations?</td>
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<td>Permanent workers</td>
<td>What are their biggest fears about reform?</td>
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<td>Contractors and informal workers</td>
<td>What hopes do they have for benefiting from reform?</td>
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<td>Unions</td>
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<td>Private firms and financiers</td>
<td>International water operating companies</td>
<td>What contribution can they make?</td>
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<td>Local water operators and potential operators, for example other utilities</td>
<td>What ideas to they have to improve the situation?</td>
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<td>Financiers</td>
<td>What risks are they willing to accept?</td>
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<td>Local contractors and consultants</td>
<td>How would they like the arrangement designed?</td>
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<td>What are likely deal-breakers?</td>
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<td>Alternative providers</td>
<td>Water vendors and truckers</td>
<td>What services are they providing now?</td>
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<td>Standpipe operators</td>
<td>How might private participation threaten them?</td>
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<td>Cesspit empters</td>
<td>How can private participation help them improve their business and the service they offer?</td>
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<td>Public toilet providers</td>
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<td>Politicians and officials other than those designing the arrangement</td>
<td>National government</td>
<td>How might private participation alter their responsibilities?</td>
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<td>Provincial or local government</td>
<td>How might individuals, parties, or organizations portray private participation?</td>
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<td>Government departments</td>
<td>What issues might be grouped with private participation?</td>
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<td>Political parties and individual politicians</td>
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<td>Media</td>
<td>Journalists writing for foreign audiences</td>
<td>What sources of information do they rely on?</td>
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<td>Journalists writing for national audiences</td>
<td>Who is their main audience?</td>
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<td>What are the competing sources of information?</td>
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Developing Strategy for Involving Stakeholders

"Consultation may show better ways to design, and get support"
Developing Strategy for Involving Stakeholders

“Governments need to think about the types of interaction, and expertise needed”

**Types of Interaction with Stakeholders**

- Many ways to involve stakeholders, depends on objectives, type of Arrangement and other factors
- 5 main types of interaction:
  Collecting and providing info, consulting, deciding and acting together
- Several different ways of communicating with shareholders, according to situation

**Acquiring expertise for the engagement**
# 5 types of Interaction with Stakeholders

<table>
<thead>
<tr>
<th>INTERACTION</th>
<th>APPROACH</th>
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<tbody>
<tr>
<td>Collecting information</td>
<td>Gathering information about people such as: who are they, where are they, what do they say they want?</td>
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<tr>
<td>Providing information</td>
<td>Letting people know what is planned</td>
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<td>Consulting</td>
<td>Identifying the problems, offering options and proposed solutions, listening to feedback, and revising the proposed approach if appropriate</td>
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<td>Deciding together</td>
<td>Not only consulting the group but giving it a decision-making role</td>
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<td>Acting together</td>
<td>Different interests deciding together what is best, then forming a partnership to make it happen</td>
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## 4 ways of Communicating with Stakeholders

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<tr>
<th>Methods</th>
<th>Description</th>
<th>Comment</th>
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<td><strong>Printed materials</strong></td>
<td>Standalone brochures and flyers as well as information pieces in local bulletins creates direct and cost-effective information transfers</td>
<td>Requires knowledge of local conditions and preferences to effectively target stakeholders</td>
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</table>
| **Opinion polls and surveys** | Household or community surveys to measure general trends or preferences  
Demographically representative of the stakeholder group                                                                                                     | Accurate results are difficult to obtain due to wording of the survey questions and other local conditions that influence respondents.                                                                 |
| **Focus groups**      | Discussion forum with stakeholders of similar interests or contentions  
Open or wide forum for discussion allows for array of stakeholder comments and correspondingly less control of dialogue by mediator or organizer                                                                 | Can reveal more depth of stakeholder preferences and concerns than polls and surveys, but the groups’ views may not always reflect those of the wider population.  
Allows for engagement with specific stakeholder groups and specific issues |                                                                                                                                                                                                         |
| **Open forum**        | "Town hall" meetings with open participation for announcing statements and soliciting responses or questions                                                                                               | Open forum lends the organizer little control of the dialogue  
Suitable for public announcements where audience discontent is low                                                                                                                                         |
Developing Strategy for Involving Stakeholders

“Governments need to think about the ............... expertise needed”

DIFFERENT SKILLS:

COMMUNICATIONS MANAGER:

- Acts as focal point
- Needs to be well briefed by the Team
- Ensures effective communication about objectives and Government policy
- Alerts Team to potential problems or benefits of the proposed Arrangement
- Ensures sequence and method of communications

Acquiring expertise for the engagement

Specific skill sets needed, that may not exist within Government

Different kinds of interaction needs depend on type and scale of the project

Designating a communications manager as focal point is of advantage
The appropriate approach with each group of Stakeholders depends on a number of variables, including:

- The Group’s capacity
- Understanding of Private Participation
- The ways that social, political and economic climate affect Group
Interacting with Stakeholders

“The appropriate approach with each group of Stakeholders must be varied”

Some potential Stakeholder Interactions:

- Customers
- NGO’s
- Workers
- Private Firms and Financiers
- Alternative Providers
- Opinion Leaders and other Politicians
- Media
Identifying Stakeholders

“Could more consultation have helped?”

In several cases it has become apparent that more consultation would have resulted in a better and more effective Arrangement design. In some cases the lack of correct information or lack of stakeholder involvement results in the Arrangement not working at all:

- **La Paz – El Alto Concession:**
  - **Situation:** Revenues for the increased expansion were too low, as demand in new areas was not as high as predicted.
  - **Result:** Government requested cancellation

- **Cochabamba Concession:**
  - **Situation:** In addition to technical problems, several groups with different, and important, concerns did not feel that their interests were being taken into account. There was serious civil unrest.
  - **Result:** As a result of the political unrest the Arrangement was a failure, and unworkable
In Colombia national regulation requires that water utilities bill monthly. In the town of Cartagena (see Examples), the operator found that this billing regime made it difficult for low-income workers—especially those paid by the day—to manage bill payments. Through consultation it became clear that if bills were sent twice a month, these households would find it easier to pay, benefiting both them and the operator.

The regulator refused to adjust the national standards, but by working with community organizations that organized to collect payment twice monthly, the operator was able to achieve the same result. It was only through consultation and engagement with local organizations that the problem was identified and the solution developed.
Involving Stakeholders in Design

Government can use the information from Stakeholders to make estimates of the effects of Arrangements on the different groups.

Whilst net benefits may be expected, it is necessary to review the effect on each of the different groups, and balance the interests of the ‘winners’ and ‘losers’ in the final design.

It is possible to establish a quantitative ‘policy model’ approach to help in this task.
Winners & Losers under different options

“Winners & losers can be identified and gains & losses estimated. If necessary the Arrangement can be redesigned to take account of this.”

Introduction of Private Participation reform is on the basis that there will be net benefits to the community. This means that benefits for the ‘winners’ outweigh costs borne by the ‘losers’.

In principle, it may be possible to distribute benefits so that no group loses.

In practice, Governments may wish to support one or more groups such as the disadvantaged poor or politically influential groups (water workers, major water users etc.)

- *Example*: Unconnected poor expected to gain from service expansion. Existing customers might be expected to pay increased tariff and, unless services improve, they will ‘lose’. Government needs to quantify the situation, and use the information to adjust the design as necessary. In this case, the redesign could include a subsidy to the poor.

“A quantitative approach may be used to evaluate the social and economic impact of the Arrangement, and help to simulate the potential effects”
“Social impact modeling can establish the different stakeholders. The Toolkit Policy Simulation Model quantifies the effects with different scenarios”
Reviewing Session 4

‘The Session has looked at the whole range of Stakeholder communication issues in Arrangement design………….’

- Identify Stakeholders
- Develop Communication Strategy
- Interact with Stakeholders
  - Satisfactory outcome
- The Arrangement
More Information: 
Session 4

More information **Involving Stakeholders**:


*Sustainable partnerships with NGOs and community organizations*: Trémolet and Browning 2002 and Trémolet and others 2004.

*Engaging the media*: Osborne 2003.


*Engaging the media*: Osborne 2003.


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THANK YOU!

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