9. Managing the PPI advisory services

Outline of this Module

What this Module does:
This Module describes the different roles that officials play within the overall process of managing advisors, ranging from those located in the PPI unit in the ministry in charge of privatization to officials in other ministries affected by the reform. The Module also suggests some institutional models for organizing officials.

Who should read this Module:
This Module should be read by officials involved in the overall management of the reform process, and particularly by officials involved in the management of advisors. Officials with responsibilities for setting the overall strategy for PPI reform and those with responsibilities for implementing that reform will need to be aware of the alternative arrangements that available for managing advisors.

The introduction of PPI is likely to require some internal reorganization of the government institutions to reflect the reform. Although this module is primarily concerned with the managing of advisory services for PPI, rather than the management of the PPI process itself, the two matters are strongly related.

This Module addresses four aspects of management of the PPI process. Section 9.1 discusses political structure for co-ordination and communication. Section 9.2 covers the institutional structure for managing the overall process from policy formulation to contract award and through to contract management. Sections 9.3 and 9.4 cover the management of contracts with advisors. Finally, section 9.5 discusses how the performance of advisors can be monitored.

9.1 The reform process needs a structure for political management

A prerequisite for successful PPI is agreement within government over the objectives of the reform and the steps that need to be taken. Many PPI programs have implications far beyond the interests of the immediate sponsor or line ministry (i.e ministry with a responsibility for a specific sector). Processes are needed to resolve conflicts over reform objectives and mechanisms should they arise. They need to balance adequate political control with rapid decision making. They will need to be based on cabinet, and ministerial committees below cabinet level.

- **Cabinet** Major PPI programs may be of sufficient importance to warrant cabinet consideration. Cabinet processes will differ among countries. A possible approach is for cabinet to consider and endorse the major policy decision that initiates a reform, and legislation to support the reform. Where a major transaction is involved, cabinet should also be informed of the outcome. The timetable for cabinet consideration will have implications for timetables for final outputs by relevant advisors.

- **Ministerial or cabinet committees** Day-to-day management of a major reform will raise issues of sufficient importance to require ministerial consultation and decision but too detailed for full cabinet consideration. Some formalized structure will be needed for the key ministers involved to consult and reach a decision. Cabinet may formally delegate decision making to those ministers, or may delegate a power to recommend and reserve final approval for specific decisions. The composition of a dedicated ministerial committee should involve the key ministers. To avoid substantial delays in making decisions, membership will probably have to be limited.

Public dissatisfaction with the implications of a PPI program can prevent reform. It is important that the government communicates its program to consumers and other stakeholders, and consults with them, to ensure public support.

Most successful major reforms have relied on a key senior minister to act as a champion for reform. The appropriate approach will obviously differ from country to country. However, it is generally essential that communication is managed from one location. This becomes of increasing importance as a transaction nears its end. Investors will be very sensitive to political signals from the government. Only those ministers directly involved will be well informed of the most recent decisions and their implications for the wide group of stakeholders.

In some cases the government may have the necessary in-house resources to manage and organize the process of consultation and publicize the reforms. Where they do not, public relations advisors can offer advice about how to manage the relevant processes. (See Module 3 of *Volume I*).

In addition, the government needs to demonstrate commitment to the process. There are a number of ways in which it can signal commitment to the process of reform, including the hiring of competent private sector advisors and setting up autonomous reform management units. The announcement of major reforms in publications such as the *Wall Street Journal*, *The Economist* or *Financial Times* is another way of indicating government intent.

Figure 9-1 illustrates the potential parties that might be involved in managing the overall PPI process. Structures for managing the process of political reform – such as cabinet or ministerial committees - will be most likely to be active during the first stage of the PPI process, when policy is being formulated. However, as discussed, it is important that the key messages about the direction and intention of reform programmes are constantly reiterated and hence ministerial involvement will be required throughout subsequent stages of the process. Once the policy direction has been determined, cabinet or ministerial committees will play a less active role and may only be required to convene where decisions regarding changes in policy are required or to receive progress reports on reform and implementation. More generally, after the end of the policy formulation stage management of the PPI process will fall either to a pre-formed PPI unit (or some equivalent) or to a committee made of up officials for that particular initiative. They may receive some support from lead advisors.

Figure 9-1
Management of the PPI process

(Indicative arrangements for management of the PPI process)

Independent unit within government

The independence of the government agency managing the process will help to signal commitment (also see section 9.2). In particular, this will be more likely to hold if the unit:

- has a separate budget allocation that ensures funding over the entire period of the PPI process (i.e. not just for one project but for the reform program);
- is responsible directly to the highest levels of government, at least to the relevant minister and possibly to the head of the Treasury, Finance Ministry or to the head of state; and
- is situated away from other government departments providing it with the ability to operate independently.

Creation of a cabinet level authority in Bolivia

In Bolivia, a Ministry of Capitalization, headed up by a senior cabinet official, was established at the outset of the PPI program for the privatization of state-owned utilities, selected transport systems and mines. In a period of just three years, the Ministry oversaw the privatization of public enterprises in the telecommunications, electricity, railways, airlines, airports and hydrocarbon sectors. The process had strong political support at the highest levels: the Minister of Capitalization was understood to have 24 hour access to the President and to act with the authority of the presidency. Upon completion of the capitalization program, the Ministry was abolished.

Recommendation 9.1: Officials in the center of government should advise ministers on a structure for consultation and decision making. It will be important to formally define the role of cabinet, committees below cabinet, and individual ministers perhaps by presidential degree. It will also be important to communicate effectively with key stakeholders, and to centralize communications as a transaction proceeds.

9.2 Structures for official control

The extent to which reorganization is required depends upon the extent of the PPI reforms. Three broad approaches can be adopted:

(1) *A centralized approach*: One model is to establish a unit to manage the PPI process located within a central department such as the finance ministry. The functions of such a unit could include:
- coordination and communication of the reform program;
- implementing major restructuring;
- defining regulatory roles and establishing regulatory bodies;
- preparing relevant legislation; and
- managing major transactions.

(2) *A decentralized approach*: Under a decentralised approach, the line ministry would be responsible for the functions outlined above. A dedicated unit would be created within the department for that purpose.

(3) *A hybrid approach*: Two forms of hybrid approach could be considered. The first is where line ministries or agencies retain responsibility, but a central unit provides best practice advice and guidance on PPI implementation to other ministries. The second is where a dedicated unit is formed from one or more ministries. The ministries concerned would probably include at least the finance ministry and the main line ministry. Ministry and agency participation could reflect the involvement of key ministers.

There is no simple answer to the best approach (see Table 9-1). The main issues to consider when deciding on the structure are how best to use available skills in:
- restructuring and transaction;
- knowledge of the relevant sector; and
- managing relationships with key interests in the sector.

However, these issues can have different implications depending on the particular situation faced. For example, when restructuring and transaction skills are scarce, or when the government is embarking on an intensive program of reform, this is likely to argue for a greater degree of centralization.

Table 9-1
Advantages and disadvantages of PPI management approaches

Approach	Advantages	Disadvantages	Implications for managing advisors
Centralized	Same department has control over whole PPI program—allowing it to understand the bigger picture and to learn from previous experience. Allows development of specialization in contract management.	Expertise within central department may not exist to oversee specialist aspects. Central department may have weaker relationship with key sector bodies.	May need to use sector specialists from line ministries to help manage advisory input. Other government specialists (e.g. economists, lawyers and engineers) will also be required.
Decentralized	Allows those in government who best understand the area or sector to manage the process, and the relationship with key interests.	Line ministry may lack skills in restructuring and transactions. May lose wider view of whole PPI program, and fail to learn from experience.	Mechanisms need to be put in place to ensure that advisors are not 'captured' by sectoral interests.
Hybrid	Allows combination of wider view of PPI program with understanding of needs specific to the department in question.	May create tension between the two departments who have opposing objectives. This may be reduced if the relevant ministers are working together.	Potential problems of lack of co-ordination between the two organisations. This may be confusing for the advisors.

When knowledge of the relevant sector is weak, officials may develop contracts that create subsequent problems elsewhere in the sector. For example, toll road contracts frequently protect the developer against competing road developments. If the government attaches importance to particular future developments, this needs to be recognized in the contract design. When the transaction only affects part of a complex sector, this argues for a greater involvement of the relevant ministry, in order to avoid decisions being made which will foreclose subsequent options for further private sector participation in the future.

When relationships with key interests are neglected, reform can be blocked. It is important that relationships with unions, professional bodies, and other key groups in the sector are well managed. The most effective way of handling this will vary substantially from case to case.

Recommendation 9.2: Officials should take into account the implications of specific structures for managing the PPI process for the management of advisory services.

9.3 Organizational decisions

Once the location of the unit(s) is decided, ministers and/or senior officials will need to decide on the:

- appropriate number of staff;
- range of areas where expertise is required;
- need for input from external experts; and
- level of seniority of staff.

The answers to these questions will partly depend upon the scope of the PPI process. The introduction of a single service contract in a single sector would require little or no government reorganization. Full sectoral liberalization could require substantial policy work, new legislation, establishment of a regulator, management of the transactions and coordination of a range of government interests such as related sectors, industrial relations, finance, public works and the environment.

The staffing of the unit will also depend upon the extent to which external advisors are involved in the process of reform. Even where a large part of the process of managing the reform is contracted out to the private sector, there will still be a need for institutional structures to be established. In particular, officials will be required to:

- provide data;
- act as a contact point for the set of officials with whom the advisors will need to speak; and
- take decisions in circumstances where the advisors are faced with choices, or refer major decisions to ministers.

The establishing of a unit can also help facilitate knowledge transfer, particularly if, for example, the advisors work with officials on a frequent basis.

In determining the staffing needs for the unit, identifying the division of labor between officials and advisors provides a useful starting point. Based on this approach, Figure 9-2 and Figure 9-3 show the staff requirements involved in managing two illustrative PPI reforms involving a management contract and a full-scale divestiture.

Figure 9-2 illustrates indicative staffing levels required to organise a management contract. The figure shows that between one and four full time people might be required to manage the process from start to finish. This estimate is based on the assumption that a single (middle level) official would have responsibility for undertaking all of the internal tasks indicated. Additional input might be required from specialist and more senior staff for the purposes of tender evaluation and for contract negotiation. The responsibility for appointing and managing advisors might also fall to the same official, or alternatively the tasks of managing advisors might be allocated to a different person, depending upon the scale of advisory input. The input of administrative, secretarial and accounting/financial staff would be required on an occasional or part-time basis too.

Figure 9-3 illustrates the indicative staffing requirements for a unit managing an entire asset sale. It is envisaged that a much larger full-time core team of staff would be required to undertake the set of internal tasks indicated. This core team would be likely to comprise a project manager (usually a middle level official), a lawyer, an engineer and an economist. Part time input might also be required from staff with publicity or public relations expertise, financial management and administration skills. A senior official (for example head of the privatization unit) would be required to direct the entire process, though on a strategic rather than a day-to-day basis.

Figure 9-2
Indicative staffing levels required to organize a management contract

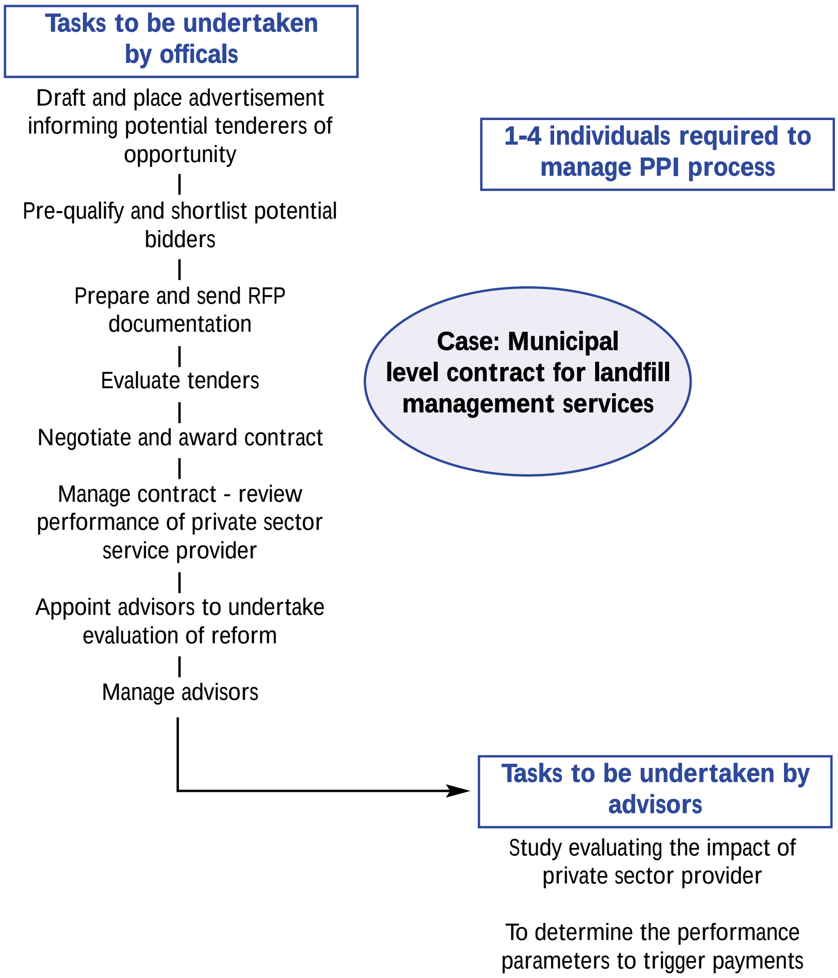
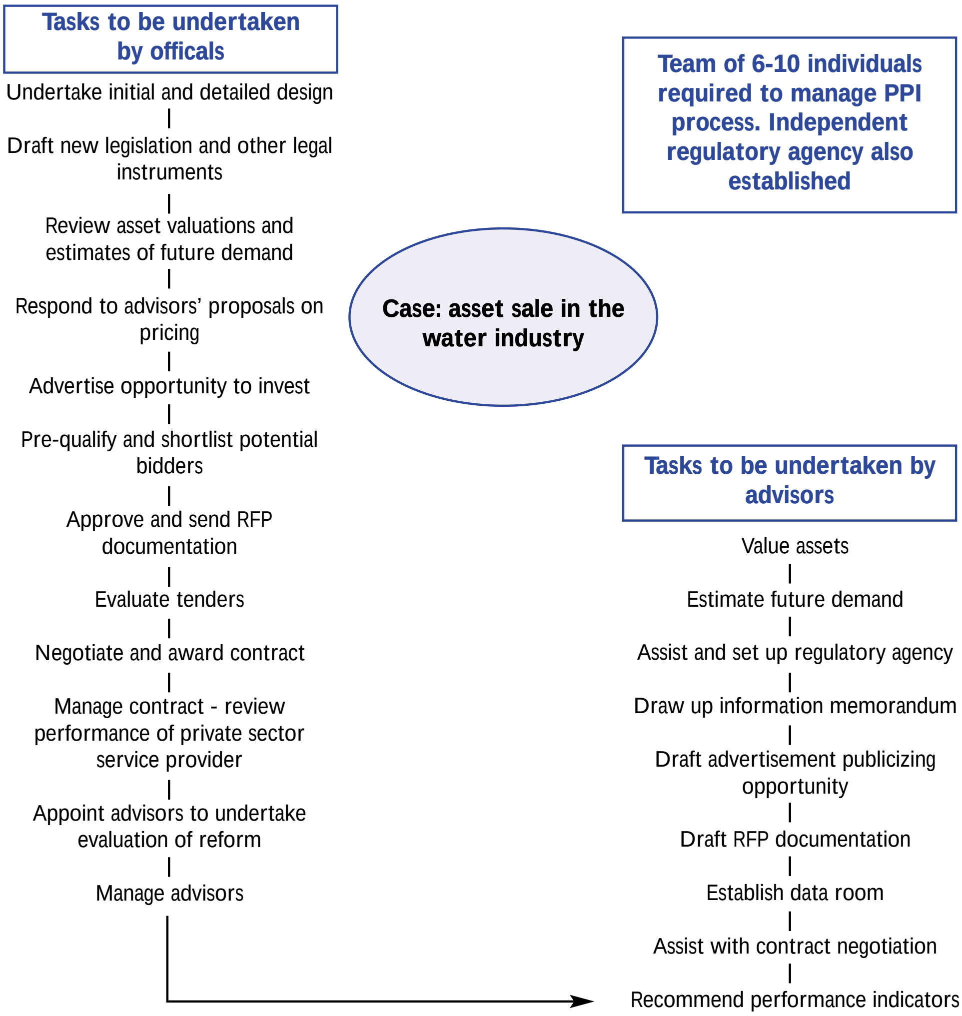


Figure 9-3
Indicative staffing levels required to organize an asset sale



Recommendation 9.3 Decisions about the role, structure and authority of the management unit should reflect the importance of the assignment.

9.4 Management of advisors

Once advisors have been appointed it is crucial that they are managed properly. It is preferable for the task of managing advisors to fall within the remit of the unit or officials involved in the overall PPI reform program or project. The following sections outline the differing roles that officials will play and the resources that will be required for the explicit purpose of managing PPI advisors.

9.4.1 Varying roles of officials

Managing advisors is an important task that can contribute significantly to the success or failure of the reforms. It is important that both the number and the seniority of officials required to manage advisors are not under estimated.

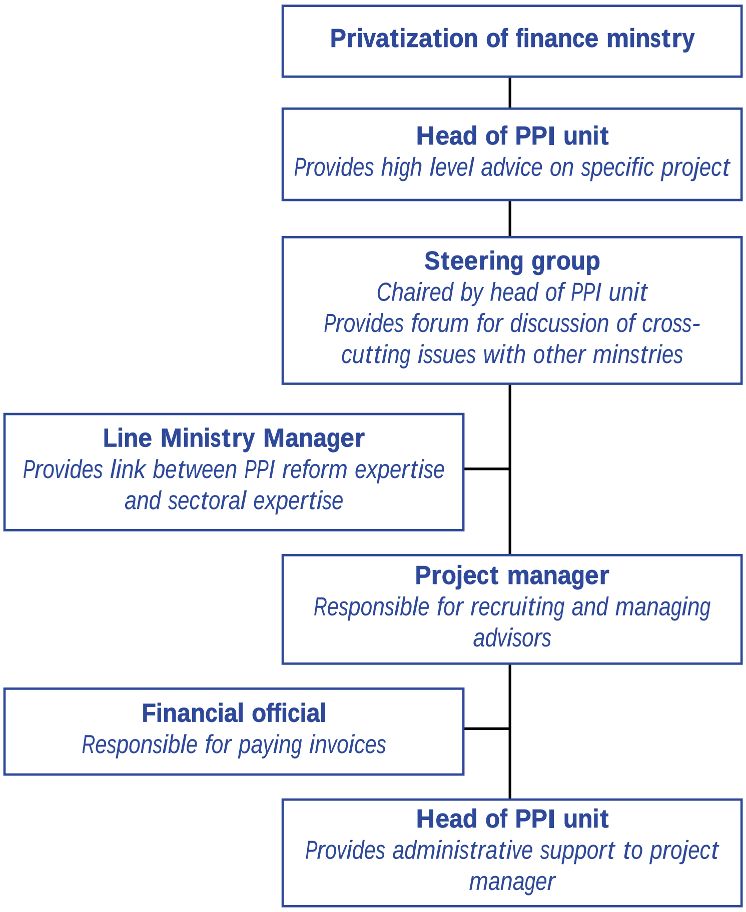
Given the close links between advisory services and the PPI reform program, it would be desirable for the officials managing the advisors to sit within the unit that is charged with managing the overall PPI reform program. Furthermore, payment for advisory services should come from or be authorized by the agency or unit responsible for the PPI project. This is important for the following reasons.

- If the finances for paying for advisory services came from a budget that the agency or unit did not control, payment for advisory services could be withheld for no reason.
- There may be no sense of urgency when paying for advice.
- The agency or unit will have incentives to ensure that they get the best value for money from their advisors.

Managing advisors is likely to require the involvement of a number of officials in varying capacities. At the very least, the different officials will be required to undertake the following roles:

- *Project management* – this is likely to fall to a middle level manager in the unit or line ministry.
- *Provision of senior advice* – this will be likely to fall to a senior level official, perhaps at the level of permanent secretary or minister.
- *Financial monitoring* – this will likely to fall to the finance division of the unit or line ministry.

Figure 9-4
Indicative roles of officials on PPI project



Recommendation 9.4: Management of advisors should be closely integrated with management of the reform program, ideally through colocation of the two activities within the same unit.

9.4.1.1 The project manager

A single person should act as the first point of contact for the advisors and have prime responsibility for the management of and communication with advisors. Depending on the type of contract signed (a single contract signed by a lead company within a consortium or individual contracts with specialist advisors) it may be appropriate to have:

- a single project manager;
- a lead project manager supported by individual project managers with responsibility for each contract with the specialist advisors; or
- a series of individual project managers reporting to an official with overall responsibility of the PPI process.

The project manager will be heavily involved in the management of advisors once they are appointed. It is desirable that they also play an important role in the process of appointment. In view of this, the range of tasks that the project manager will be likely to undertake includes the following:

- **Acting as the lead official** – to coordinate writing the TOR (see Module 4 in *Volume I*) that will eventually form the basis for part of the contract with the advisors and be the point of contact during the hiring process.

- **Coordinating with donors** – to serve as the day-to-day point of contact with lending agencies and trust funds involved with financial the technical assistance, if relevant. This requires detailed knowledge of the agencies' procurement guidelines and obligations for consulting services.

- **Agreeing a timetable with the advisors** – a condition for effective project management of advisors is establishing a feasible timetable over which the work is to be undertaken, together with an unambiguous list of deliverables or outputs.

- **Organizing the appointment of advisors** - as described in Module 7 (see section 7.2.4) this is likely to involve appointment of an evaluation committee.

- **Acting as a first point of contact with the advisors** – it is inevitable that issues will arise which require the advisors to seek clarification from government officials. These should be addressed to the project manager in the first instance. The project manager may then act as a conduit by putting the advisors in contact with other government officials.

- **Communicating the key changes to the advisors** – in a complex PPI process, the advisors' tasks will be affected by decisions that are taken elsewhere in government, perhaps by ministers. It is crucial that advisors are kept informed of these decisions and that others in government are aware of the suggestions being made by the advisors and their implications.

- **Approving payments, additional expenditures and monitoring project expenditure** – while the contract with advisors should make provisions for the sorts of additional expenditure that might be incurred, there may be a need for the project manager to approve additional expenditures from time to time. Where advisors are not being paid on the basis of a lump sum contract, then the project manager may also be required to monitor the overall cost of advice.

- **Monitoring performance of advisors** – the project manager will be responsible for assuring to senior government and donors that the advisor is performing according to contract. In the case of the advisors' nonperformance the project manager will correct the situation through renegotiation or will notify senior officials if re-tendering appears to be required.

Depending upon the scale of the PPI project or program, the project may have a team of officials providing support. These advisors may be drawn from a wide range of ministries or agencies, providing regional, functional or sectoral expertise.

Recommendation 9.5: In most cases, the project manager should prepare TOR for the advisors, organize their appointment, and act as the first point of contact and channel for communications. The project manager should also control the timetable for deliverables and the budget.

9.4.1.2 Senior officials

Senior officials, although not directly involved in the day-to-day management of advisors, will, nevertheless, play an important role. The range of activities will involve:

- Justifying the need for advisors as part of the input into the reform process -this task may involve their early involvement, prior to embarking on the reform, if they need to secure extra funds from the government budget or from donors to pay for advisors.

- Negotiating with donor agencies – this task will need to be undertaken right at the start of the reform process. Where funds are secured, senior officials will have an additional role in ensuring that the funds are used in a way that is consistent with the agency's requirements.

- Making strategic decisions –about the PPI reform process which will impact on the range of tasks that are to be undertaken by advisors.

- Liasing with advisors - (usually via the project manager) if their input is required to take high level decisions as a result of the work undertaken by the advisors.

- Relaying the recommendations of advisors to ministers and other high level officials - to ensure that there is a continuous flow of information and that the relevant parties within government participate and sign on to the process.

9.4.1.3 Budget officers

While the project manager will play a role in monitoring and approving expenditures, they will not usually be the ones charged with processing and paying any invoices (although they will sometimes be the official receiving invoices in the first instance). Usually, there will be a need to designate an individual within the finance or accounting division of the administering agency or project implementation unit to ensure that payments are made to the advisors within a specified time. This individual must not relinquish payment unless the project manager is satisfied with the quality of the work.

The budget officer must also be made aware that the budget ought to reflect the timetable, quality and size of the project.

9.4.2 The management team's resource requirements

Managing advisors is a major task. This should be recognized when drawing up the job descriptions of those within the PPI management team. Sufficient time should be allocated to the task, even if more staff have to be recruited to ensure manageable workloads.

It is also important that recognition is given to the need for high caliber personnel to work with advisors. The managers of advisors may be required to absorb large amounts of technical information and to work to tight deadlines. It may be necessary to pay over-and-above normal civil service pay scales to ensure that suitably qualified officials are recruited and retained.

Section 9.3 outlined the bare minimum in terms of the different roles that officials will need to fulfil. Depending upon the form of PPI selected, a more complex team of officials might be required to manage advisors, perhaps cutting across conventional departmental boundaries or comprising staff with the relevant economic, financial, legal, technical and other skills.

Given the complexity and wide range of issues that officials might be required to address when managing advisors, wherever possible continuity of personnel should be ensured, even if this means keeping staff in positions for a longer duration than is normally practised.

In addition to people, the management team may also need to provide office space, bilingual support staff and communications facilities (telephones and internet/email access) to the advisors. It will be important to ensure that the advisors are located in government offices rather than in the offices of the utility, enterprise or entity that is subject to reform. This geographic separation of advisors from the entity concerned serves to reinforce real and perceived independence of the advisors.

Recommendation 9.6: Senior officials should ensure that the management team has adequate resources, and encourage staff continuity.

9.5 Monitoring advisors' performance

Once advisors have been appointed, it is important that they are not simply left to undertake the tasks set out in their TOR. In almost all circumstances there will be a need to monitor the advisors' performance, and to facilitate communication among the government officials charged with project management and the advisory team.

9.5.1 The structure for monitoring

There are several different approaches to monitoring the performance of advisors. The most appropriate will depend upon the size of the contract and the importance of the work that they are undertaking.

Steering group
The most common method of managing the work of advisors is through the appointment of a steering group to manage and monitor the progress and quality of outputs of advisors. This approach is particularly appropriate where a number of advisors with different skill sets have been appointed, or where a wide range of skills is required to judge whether the work of the advisors is of sufficient quality (e.g., during the initial and detailed design stages of the reform). It also provides an effective way of ensuring that all ministries affected by the reform have an opportunity to comment on the work of advisors. Where an evaluation committee has been established as part of the competitive tendering process, then this same group of people might be the best qualified to monitor the work of the advisors.

Specialized unit
Another common approach is the creation of a privatization unit, a semi-independent body headed up by a senior civil servant or non-government official that will oversee the entire PPI process. As emphasized above, it will be vital that this unit has direct access to senior members of government. Therefore, it is important to select as head of the organization someone with sufficient clout that they will have this access.

Lesotho Privatisation Unit
The Government of Lesotho has embarked on a wide ranging reform and privatization program covering everything from infrastructure to abattoirs. In order to coordinate the process, ensure stakeholder support and consistency across the many initiatives, the Government, created the semi-autonomous Privatisation Unit. The unit was officially placed under the Ministry of Finance but was located outside the main government offices and had independent funding from the World Bank.

In addition to considering the appropriate form of private sector participation in each of the industries, the Unit was also responsible for hiring advisors to set up the appropriate regulatory frameworks, draft the required outline legislation and undertake the implementation of the programs.

Stealth management
Where the amount of input from advisors is relatively small or specialized then it may not be cost-effective to establish an independent unit. The time and effort required to organize the group may well end up being greater than the value of the actual contract. If this is the case, then the project manager will need to devise mechanisms or procedures for keeping in touch with the service providers. Regular progress reports, either face to face or over the telephone, may offer one way of ensuring that both parties are kept informed.

In some cases it may be that the relevant expertise is not available within government to monitor the work of advisors. Where this arises, it would be desirable to appoint an external advisor (for example an academic or independent advisor) to enable the government to accurately evaluate the reports and recommendations from the external advisor.

Recommendation 9.7: The project manager should establish a management team that reflects the resources available and the complexity of the initiative.

9.5.2 Schedule management

The workplan submitted by the advisors should have a clear description of the outputs to be produced and the timetable under which they are to be submitted. If there are delays to the timetable, then it is important the project manager agrees to a revised timetable with the advisors (Module 4, in *Volume I*, considers the timetable in more detail). The revised timetable needs to be feasible, and to coincide with the overall timetable for the PPI process. In some cases it may be necessary to revise the outputs to ensure they are feasible within the timetable.

The timetable should include interim outputs. This allows progress to be monitored and creates a series of small deadlines rather than one large one. Interim outputs may be short reports, workshops or presentations by the advisors. Alternatively, they may be drafts of the final report or reports on the progress of the financial or technical advisors in approaching bidders and valuing assets respectively. By structuring the work in this way, the government officials will minimize the risk that the final output fails (e.g., there is no private sector interest in the infrastructure in question) or the final output is unsuitable for the government's needs.

Recommendation 9.8: The project manager should ensure a timetable with phased outputs is agreed upon with advisors.

9.5.3 Importance of open communication

It is important to emphasize the need for interaction among all the stakeholders, including government officials, the advisors and the wider community affected by the reforms. Interaction with stakeholders through seminars and workshops helps to manage the timetable and may provide a series of performance indicators. In addition, they provide opportunities to present the current state of the advisory project to stakeholders and allow them to voice concerns or ask questions about the process which helps to ensure all stakeholders buy into the process. This interaction has the additional benefit of transferring knowledge about PPI to the wider community.

A more general process of consultation with the public can provide a way of generating support for reforms. Publishing consultation papers, and holding domestic road shows and information campaigns, informs stakeholders and can generate support. These may be focused at particular groups, for example at staff working in the companies to be exposed to the rigors of the private sector or consumers, or they may be more general campaigns aimed at generating popular support for the measures.

Recommendation 9.9: The project manager should ensure that there is interaction within government and with stakeholders. This structured communication may be facilitated by the PPI advisors through workshops, seminars, public relation campaigns and publications.

Useful reading

Treasury Taskforce website. *How to Manage the Delivery of Long Term PFI Contracts*.
http://www.treasury-projects-taskforce.gov.uk/series_3/technote6/6tech_contents.html