



Infrastructure Planning and Management

Project Governance



Agenda

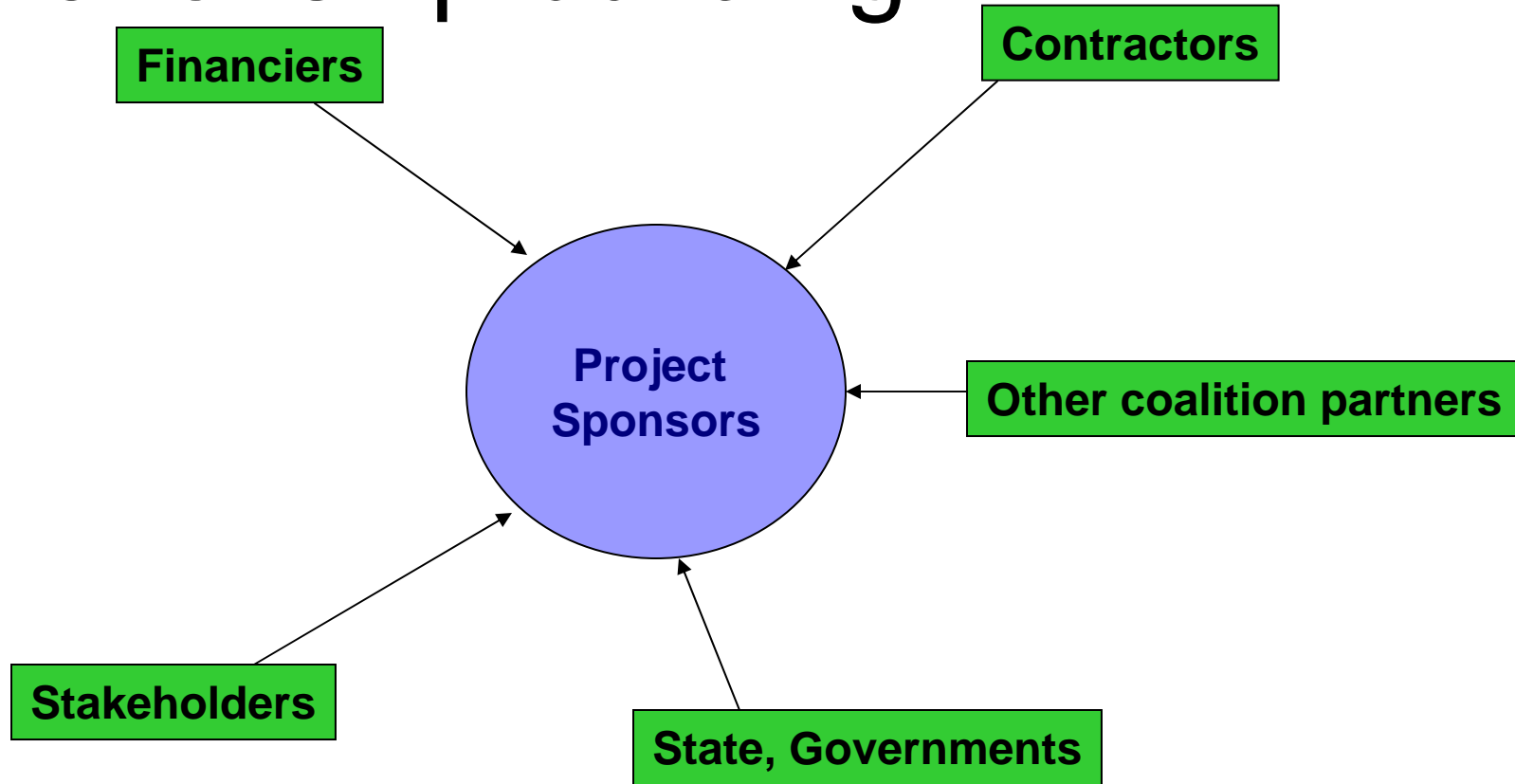
1. Strategies for Governing against Infrastructure Project Turbulence
2. The Governance model



Project Governance

- Project Governance is the capacity of projects to steer through unexpected Turbulence
- Almost all projects face a set of foreseen and unforeseen risks that they must safeguard against
- The following slides provide information on some strategies that can be used to safeguard against project turbulence

Governability devices – relationship building



- It is the project sponsors responsibility to ensure smooth project completion
 - To this end they will have to manage relationships with other organizations
- Depicted in this figure



Some strategic mechanisms that can be used to reduce project Turbulence

- Develop internal bonding mechanisms within the project team
- Develop coalitions with other organizations and stakeholders who are well placed to manage key risks (e.g. partnering with a top-notch construction firm to reduce EPC risks)
- Ensure reserves such as financial reserves that can help support the project in case of macro-economic shocks or poor public utilization of the assets
- Introduce flexibility in project planning and design, particularly in terms of being able to renegotiate contracts as a result of turbulence
- Some of these are explained in greater detail in the following slides



Internal Bonding Mechanisms

- Long term partnerships between the various entities within a sponsor coalition can lead to better internal bonding and a reduction in in-fighting and disputes
- Complementarities and Synergies among partners should be exploited in order to deliver greater value
- Leadership from within the private or public sector lead coalition is vital to ensuring that the project proceeds in a focused direction



Coalitions and Flexibility

- Building social capital amongst the stakeholders (i.e. the local community) is very important in terms of sustaining the development and use of the infrastructure, and also to ensure that development proceeds with community acceptance and minimal protests
- Legitimate and transparent processes in terms of setting tariffs, structuring contracts, selecting implementation agencies will also serve to build confidence among the public



Coalitions and Flexibility

- Technical Flexibility in the design of infrastructure is also very important. Since the infrastructure development process takes a large amount of time, it is possible that usage patterns could change and it should be possible for the facility to be redesigned
 - As an example, the Bangalore International Airport was designed for a certain demand, but as the project proceeded, the booming economy led to an increase in demand for the airport services. In such cases the initial technical design should be such that it can be easily modified to allow for the new demand estimates.
- Flexible contracts
 - Infrastructure projects take place over several years and as a result unforeseen circumstances are always likely to arise that result in losses on the part of some players. This must be taken into consideration through the use of “hierarchical” contracts that contain clauses that can be revisited when an unintended event occurs



Models of Project Control

New Governance Model

1. Bottom up, equitable set of project arrangements
2. Continuous decision making by all the stakeholders
3. Allows for renegotiation and preservation of relations
4. Long Term outlook

Traditional Contractual Model

1. Top down contract enforcement
2. Decisions dictated by a central contract
3. The sanctity of the contract is insisted upon
4. Short Term outlook

Additional 'Clauses' in the Governance Model Contracts

Governance Model

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graph TD; GM[Governance Model] --> SAC[Shock Absorption Clauses]; GM --> SNC[Safety Net Clauses];
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Shock Absorption Clauses

1. Rendezvous or renegotiation Clauses and triggers
2. Active management of relations With project stakeholders
3. Private Public Partnership Arrangements
4. Dispute resolution mechanism – Participative, neutral and independent

Safety Net Clauses

1. Involvement of Multilateral lenders
2. Government guarantees
3. Involvement of a local partner



Explaining the Governance Model

- Traditionally a “watertight” contract was drawn out between various parties working on an infrastructure project
 - The intention of these contracts was to ensure that all eventualities were taken care off and that the project would proceed at all costs
- However, several contract failures, renegotiations and project defaults highlighted the fact that contracts by themselves are unlikely to dictate the success of infrastructure projects



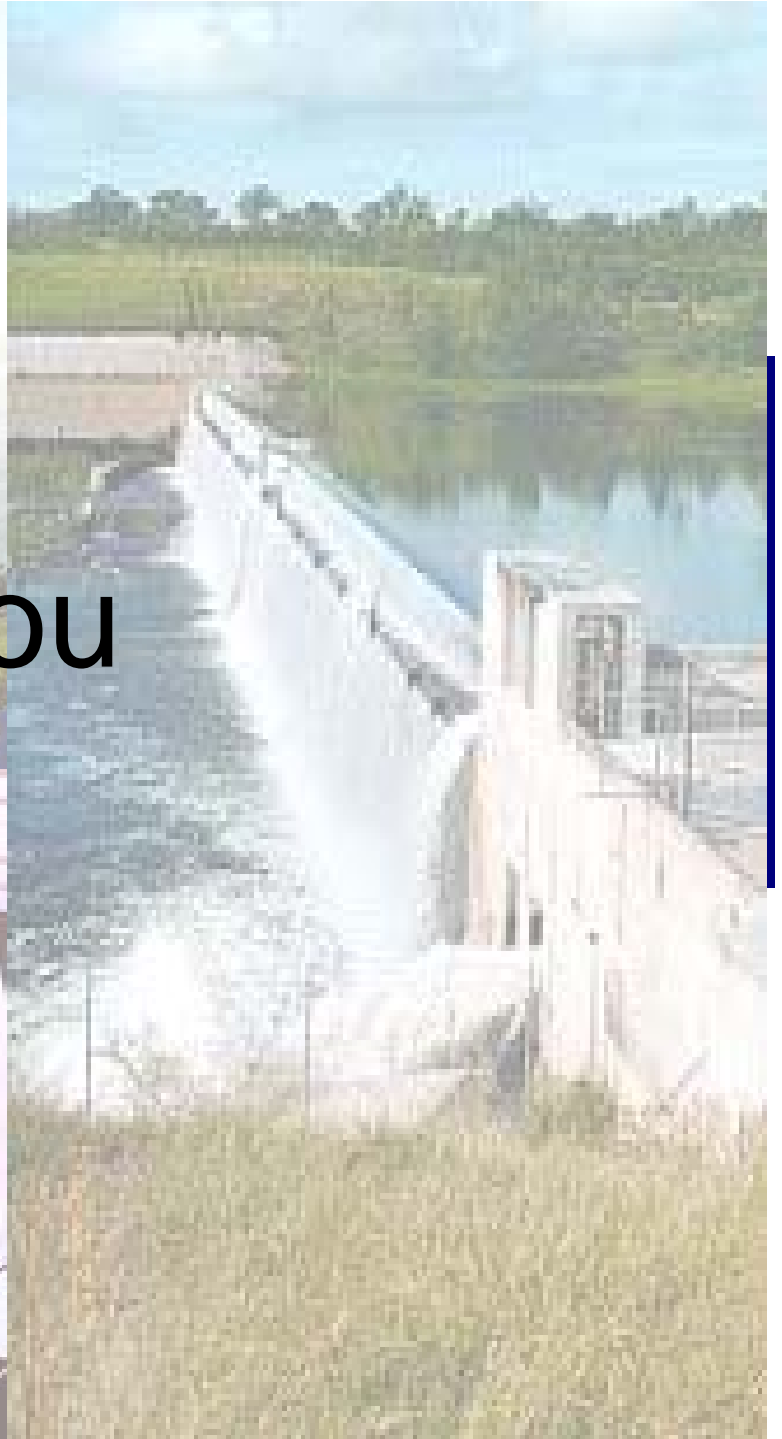
Explaining the Governance Model

- In response a “Governance Model” has been proposed
- This model proposes a more flexible system of project administration. For instance, “Trigger” clauses are inserted into the contract that call for renegotiation when certain triggers are met
 - For instance, inflation risk or demand risk is not merely assigned to a party in the contract. If the inflation figures touch a certain limit, implying that the demand for the project is dropping and current economic estimates are not feasible, the contract is then renegotiated



Explaining the Governance Model

- “Commonsense” strategies such as obtaining government guarantees, partnering with local players etc are also considered
- Another fundamental tenet is that relational strategies (e.g. more stakeholder involvement and coalition building) also need to be built in to the project in addition to contractual strategies. Some of these strategies have been elaborated on in earlier slides
- In general, international experience has shown that projects that have followed a governance model of infrastructure project management, wherein progress is monitored and re-evaluated periodically in a consultative manner, as opposed to a pure contractual model, have been more successful at achieving their stated goals



Thank You