

Session 01-Executing Reforms and Building Better Institutions

Summary

- 1. Governments across the globe face a common set of challenges in implementing economic, social and fiscal change.**
- 2. McKinsey has developed a 10 step breakthrough delivery methodology which transforms plans into results.**
- 3. Proper communication is a top priority for a government.**
- 4. PPP defined as a capital formation in PPP and the transfer of ownership or lease of dead or unproductive assets on a new business model and governed based on a complex concessional agreement.**
- 5. Priority focus areas of the Sri Lanka's new PPP agency are transport infrastructure, utility, ports, tourism, construction, IT, agri business, mining and mineral sector, financial sector and logistics.**

Key Takeaways

1. In implementing economic, Social and fiscal change, a government face a common set of challenges in the areas including leadership, powerful stakeholders, silos such as federal vs local, which have different and competing needs, lack of delivery capabilities and insufficient funding.
2. McKinsey has developed a 10 step breakthrough delivery methodology which transforms plans into results.
 - Prioritizing – Government's need to prioritize in order to deliver real and meaningful change. This is as much as what they chose not to do as much as it is what they choose to do, as there are competing needs.
 - Labs – identifying needs and impact at a very granular level
 - Budget – "any plan without a budget is a draft"
 - Public Feedback – the time that we think that government's know best is gone, we must get public feedback" through multiple channels, including real-time feedback through social media, conferences.
 - Roadmaps - clear plan of what the Government is doing and communicating that plan
 - Delivery units – a mechanism which supports other units.
 - Performance management – On a quarterly basis, different members of the government reporting back to the Prime Minister on performance
 - Capacity building – across these steps enabling the people involved to better deliver
 - Communicating impact – none of these steps matter unless they are communicated effectively
 - Institutionalizing delivery

3. Communicating impact is critical. "Achieving impact is only really meaningful if you can communicate that change and get into a virtuous loop of change communicated and understood leading to more change" This can be through annual reports, audits and independent valuation.
4. PPP defined as a capital formation in PPP and the transfer of ownership or lease of dead or unproductive assets on a new business model and governed based on a complex concessional agreement. PPP agency includes power projects, toll roads, new container terminal which are examples of new capital formation in PPP projects. Dead assets of the government which are to be transferred to a new business model include Hambantota, the Hiat hotel.
5. Some factors which enabled successful PPPs in the past include,
 - Donor funding provided to Private Sector Infrastructure Development Corporation (PSIDC) to create a long term financing instrument to support privatization and PPP projects.
 - The Public Enterprise Reform Commission (PERC), PSIDC and Board of Investment (BOI) had common boards, were run by private sector professionals and worked hand in glove.
 - The BII under the BOI obtained blanket approval to hire personnel on market rates. USAID, allocated a grant funding line for the BII to hire top international consultants to support the line ministry concerned.
 - The staff were recruited on a contract basis, and a performance based culture was created.
6. Successful PPPs during the past include,
 - Implemented Sri Lanka's first ever power project on a PPP basis and completed 400Mw of thermal power. The first ever mini hydro was structured
 - Lanka Bell and Suntel were quasi PPPs and created competition in the fixed telephony system
 - The ICT sector received special attention from the PPP unit, one of which was the declaration of Malabe as an ICT zone. Enabled the creation of SLIIT – which employs 800 people. The initial export oriented IT industry started from the WTC.
 - Sri Lanka's largest ever middle income housing projects were formed under the BII. The creativity in this lies in the RFPs which were issued to licensed commercial banks not to developer in order to create a mortgage industry.
7. New Steps for the new PPP Agency
 - Creating a brain trust of professionals to create PPP projects to meet the current imperative needs of the country. Including investment bankers, economic researches and top negotiators. Create this multi skilled team to work with.
 - Provide value added facilitation service to line ministries, to strategize, structure, negotiate and closing transactions.
 - Priority is to appoint a Board of Directors which comprise of ministry secretaries and getting guidelines in place.

- Work with the existing resources by forging linkages with institutions such as the BOI and the Megapolis. Work with external transactional advisors and a panel of local and international legal advisors and the AG's department.
 - Priority would be, transport infrastructure, utility, ports, tourism, construction, IT, agri business, mining and mineral sector, financial sector and logistics.
 - Project pipeline includes the elevated highway from the new Kelani Bridge to Athurugiriya, there is a plan for an underground tunnel to extend the marine drive, and inland water based transport, inland air transport, LRT, utility projects, ports, industrial zone, and waste to energy.
8. Sri Lanka's expectations for FDI should be higher. Targeting and prioritization FDI are important. The Government needs to think about two things; where does it need FDI, and why should it come to you? Effectively identifying the counterparty and how to go to approach them solicit FDI is important. There are new arrangements where particular companies are targeted and identified and institutions such as the BOI work towards pitching the country. A targeted approach to FDI leads to better quality of FDI and better quantity of FDI. Sri Lanka needs to think about both these aspects.
 9. There is a lack of suitably qualified workforce in Sri Lanka. The government is planning to introduce vocational training to address gaps in the workforce.
 10. Most if not all PPPs need to be on a risk and return basis, however most of the risk is transferred to Private Sector.
 - The real challenge in a PPP structure is the equitable risk allocation between the public sector and the private sector. Some of the PPPs the government has embarked on, most have withstood the test of time.
 - There isn't a conscious effort of piling risk on the private sector, and the private sector isn't foolish enough to take inordinate risks. Land should merely be looked at as an instrument to unlock economic value and not as an instrument to maximize revenue to the state that is the fundamental principle which we applied when we built housing projects to hospitals.
 11. Regulation is critical in getting FDI for PPPs. Private Sector requires certainty and continuity in making investments.
 - Regulation has to be worked with a fine balance, so as not to overregulate and under regulated.
 - Sri Lanka needs to be competitive in terms of costs, manufacturing and production costs.
 12. Despite having a robust economy backed by the third largest gas reserve in the world, Qatar has built a knowledge based diversified economy within 10 years. Qatar has a scientific approach to risk taking as it is a country run by engineers, the approach and outcomes are different in the country. There is a keen focus on the quality as opposed to quantity.

Qatar has transformed from a hydrocarbon based economy to a knowledge based economy through policy reforms and strategy.

 - For example in hydrocarbons, the country has integrated across the LNG value chain. The country never shied away from private participation and have encouraged private participation in their strategic resources.
 - Policy makers created a policy lab and had a strong framework which was not a free zone, not a tax haven focusing on quality.

- Institutions such as the Qatar Financial Center (QFC), the QFC regulatory authority, and the Qatar International Court and Dispute Resolution Centre were established. These institutions were authorized to make changes and were given the ability to do so. The governance of these entities were well defined. Cross pollination in the Boards of these entities was prohibited.

Recommendations

In order to implement innovative economic, fiscal and social change, the government should,

1. Prioritize reforms that are radical, deep and fast, and that the 'people' can touch, see and feel
2. Be careful though on chasing only quick wins; ensure some of these are catalytic
3. Lead by example, by showing strong vision and full commitment, and holding others accountable
4. Manage expectations by only making realistic promises.
5. Commit to regular engagement of the public to win their support e.g., via town halls, TV, advertisements, social media, periodicals
6. Remember the 'people' element. Technical changes must be accompanied by changes in mindsets and behaviours.
7. Build executive firepower with a strong, "clean" team to deliver critical goals, with driven culture of high standards and rigorous performance management
8. Adopt trial-and-error mentality.