

Glossary

BOT (build-operate-transfer) contracts correspond to greenfield concessions. These contracts involve take or pay provisions, i.e. revenue guarantees, that subject governments to contingent liabilities. On expiration of a BOT, the assets are returned to the public sector. **BOOs (build-own-operate)** are similar to BOTs except that they do not involve a transfer of the assets to the public sector after a pre-determined period of time. The private operator thus remains responsible for carrying out all the investment required to meet its service obligations. Under **BOOT (build-own-operate-transfer)** schemes, the private sector obtains the capital needed for construction, builds and operates the infrastructure for an agreed period of time (anywhere from 15-30 years) and then transfers ownership back to the relevant government. **BOTT (build-operate-train-transfer)** is another variation of BOT whereby the private operator commits to train the public sector to allow a smoother transfer. Other permutations of the activities for which the private sector takes responsibilities exist and typically involve design, build, operate, maintain and finance.

Under a **concession**, the private operator is also responsible for asset replacement and network expansion. The level of risk transferred to the private sector is therefore higher and compounded by the nature of retribution of the operator, mainly based on user charges.

A **lease** is a written agreement under which a property owner allows a tenant to use the property for a specified period of time and a specified rent. The private sector operator is responsible for providing the service at its own risk, including operating and maintaining the infrastructure for a given period of time. The operator is not responsible, however, for financing investment such as the replacement of major assets or expansion of the network. If payments from users cover more than the operator's remuneration, the operator is generally supposed to return the difference to the public authorities in order to cover the cost of the investments under the latter's responsibility.

Under a **management contract**, a private firm is appointed by the government to provide managerial services, often for a fixed fee. The contract typically requires the private party to manage a utility and provide services to the public for a given period of time. The remuneration of the private operator may be fixed at the outset, in which case the commercial risks of the operation are borne entirely by the public sector, or it may be linked to the performance of the utility, in which case the private operator bears some commercial risk.

Private sector participation (PSP) is broadly defined to include non-financial forms that involve managing infrastructure services. However, to differentiate from traditional public procurement, participation is defined as involving some transfer of risk to the private partner. A wide range of risk-sharing arrangements is available to policy makers and forms a quasi-continuum between cases where the public sector assumes most of the risk to cases where there is significant risk transfer to the private sector.

Public-private partnerships (PPPs) are long-term contractual arrangements between the government and a private partner whereby the private partner delivers and funds public services using a capital asset, sharing the associated risks. In a PPP agreement, the service delivery objectives of the government are intended to be aligned with the profit objectives of the private partner. The effectiveness of the alignment depends on a sufficient and appropriate transfer of risk to the private partners. In a PPP contract, the government specifies the quality and quantity of the service it requires from the private partner. The private partner may be tasked with the design, construction, financing, operation and/or management of a capital asset required for service delivery as well as the delivery of a service to the government, or to the public, using that asset. The private partner will receive either a stream of payments from the government for services provided or at least made available, user charges levied directly on the end users, or a combination of the two. This definition excludes a wider array of arrangements where non-governmental organisations such as non-profit civil society groups, trusts, church groups, etc. are involved in the development and delivery of public or semi-public services. It includes concession-type arrangements where the concession is designed to deliver a public service but excludes concessions such as licenses to use government assets such as mining which are another way for government to raise revenue. It also excludes traditional public works contracts.

Stakeholders are defined as persons or groups who are directly or indirectly affected by water policy, as well as those who may have interests in it and/or have the ability to influence its outcome (are in their sphere of influence), either positively or negatively – and want to engage in the decision-making process. They may include civil society organisations and groups with special interests including locally affected communities or individuals and their formal and informal representatives, national or local government authorities, elected representatives, regulators, agencies, end users, the academic community, utilities and other businesses and non-state actors/non-governmental organisations.

Under a **subcontracting arrangement – typically a service contract** – the private party performs specific, time-bound tasks, such as supplying inputs, taking care of planning studies, computing and payroll services or public relations, construction, maintaining assets, installing meters or billing customers, usually in exchange for a fixed fee. In this situation, the private sector bears very little risk and there is very little uncertainty around the expected outputs.

Value for money is what government judges to be an optimal combination of quantity, quality, features and price (i.e. cost), calculated over the whole of a project's life.



From:
Water Governance in Jordan
Overcoming the Challenges to Private Sector Participation

Access the complete publication at:
<https://doi.org/10.1787/9789264213753-en>

Please cite this chapter as:

OECD (2014), "Glossary", in *Water Governance in Jordan: Overcoming the Challenges to Private Sector Participation*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/9789264213753-9-en>

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