Public-Private Partnership for Disaster Resilience (PPP4DR)

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JSCE-ASCE Symposium on Infrastructure Resilience
May 20, 2019 @ Tokyo

Difference between Management and Governance

Project Management
Manager
Employee
The manager is able to controls employees.

Management of Projects
Manager
Employee
The manager can incentivize employees.

Governance
Manager
Employee
Players mutually interact.

Principle of optimal control
Principle of institutional design
Principle of equilibrium control
Institutional Mode of Governance

**Institution as rule of game**

- **Constraint/Rule**
  - Law
  - Regulation
  - Contract

**Cultural / Cognitive framework**

- Language
- Custom
- Corporate Culture

North (1990)
Greif (1997) etc.

Scott (2001)
DiMaggio-Powell (1991)

Isotani (2004)

Variety of Trade Governance Mechanism

<table>
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<tr>
<th>Governance mechanism</th>
<th>Enforcement agent(s)</th>
<th>Endogenous rules of the game</th>
<th>Fitting domain characteristics</th>
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<td>Personal trust</td>
<td>Trading partner (second party)</td>
<td>Termination of trade with dishonest trader</td>
<td>Repeated bilateral trade opportunities</td>
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<td>Traders’ norms</td>
<td>Traders’ sharing communications network</td>
<td>Ostracization of dishonest traders from the community</td>
<td>Traders connected by communication networks</td>
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<td>Clientage</td>
<td>Trading partner who has sunk relation-building costs</td>
<td>Termination of relationship against dishonest trader</td>
<td>Ex ante anonymity, ex post repeatable trade opportunities</td>
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<td>Club norms</td>
<td>Traders who has sunk entry costs</td>
<td>Expulsion of dishonest trader from the “club”</td>
<td>Ex ante anonymity, ex post repeatable trade opportunities</td>
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<tr>
<td>Self-enforcing (employment) contracts</td>
<td>Traders in markets</td>
<td>Termination of contracts against dishonest traders and beliefs about its consequence</td>
<td>Actions and/or outcomes observable but unverifiable</td>
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<td>Third-party information dissemination</td>
<td>Third parties (e.g., law merchants, escrow services, certified authorities, online auction sites)</td>
<td>Information dissemination regarding dishonest traders</td>
<td>Anonymous traders</td>
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<td>Coercive enforcement by a third party</td>
<td>Third parties (e.g., political rulers, mafia)</td>
<td>Violent punishment of dishonest traders</td>
<td>Asymmetric distribution of coercive power; large gains from one-time dishonest trading</td>
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<td>Moral codes</td>
<td>Self (first party)</td>
<td>Negative moral sentiments invoked by dishonest trading</td>
<td>Relatively homogeneous agents sharing customs</td>
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<td>Rule of law</td>
<td>Courts</td>
<td>Rule-based punishment of dishonest trading</td>
<td>Anonymous traders, actions or outcomes verifiable, government monopoly of coercive power</td>
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<tr>
<td>Digital enforcement</td>
<td>Computer programs designed by trading agents</td>
<td>Delivery of goods only on the terms programmed to enforce</td>
<td>Trade of digital contents/services deliverable through cyberspace</td>
</tr>
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</table>

Aoki (2001)
Framework Agreement – *Kyoutei* (1)

- **Target routes** – predetermined routes for road clearance works

- **The scope of work** – collecting the information of damage on target routes for road clearance, conducting works for eliminating obstacles and flattering bumps, and works as needed basis

- **The procedure** – the road administrator orders for contractor to carry out the work by document in principle. However, the order can be in oral if preparing document is difficult. The responsible route for each contractor is allocated in advance. If a contractor lose communications means with the governmental bodies, he or she shall start the work according to the predetermined allocation of responsible routes.

Framework Agreement – *Kyoutei* (2)

- **Preparation at ordinary time** – Ensuring the communication means and monitoring the available resources. It shall be reported to the governmental bodies every year.

- **Compensation** – It is impossible to state the actual price of work. Therefore it just mentions as ‘the work shall be compensated.’
Features and Enablers of *Kyoutei* (3)

- Framework is **not legally enforceable**.
- Framework intend to provide a focal point on how relevant stakeholders behave where strategic coordination is necessary, rather than to bind parties to a contract by authoritative power of court.
- Implicit trust enables to engage in a framework.
  - Contractors trust that public bodies shall **pay reasonably**.
  - Public bodies trust that contractors **will not hold up**.

→ **Need for self-enforcing contract**

- Uncertainty in the capacity that the private sector provides

Contractualization of Framework Agreement

- Difficulty in determining the specification of disaster responding works
- Capacity-based contract
  - eg. Capacity to get rid of *** volume of excavation per day
- Payment mechanism
  - Retainer and contingency fee system
Effect for Contractualization of Framework Agreement

- **Minimizing uncertainty** in responding capacity
  Lack of estimate regarding the necessary responding capacity and no guarantee to effectively mobilize.

- **Incentivize the private sector to enhance preparedness**

- **Securing transparency** in nominating higher-performance private partners

Public-Private Partnerships for Disaster Resilience

- Urgent needs for the capacity and capability of private sector for disaster response and recovery.

- Criteria for good governance of PPP4D
  - Government-plan oriented
  - Business sustainability of private partners
  - Providing incentive for preparedness
Thank you very much for your kind attention.

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