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PUBLIC- PRIVATE PARTNERSHIPS (P3S): AN ANALYSIS

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ABSTRACT

In modern period, the arrangement of the Government alone being accountable to provide public facilities and goods to the citizens has been appraised and a new approach has developed between Governments and a private parties for the provisions of assets and the delivery of services to the masses. This is primarily because of the failure of the Government in the provision of the expected goods and services to the beneficiaries and also increased awareness amongst the people. With this change in consideration, the paper aims to analyse this Public-private partnerships (P₃S), in terms of the efficacy with which it can be implemented as compared to a pure public provision.

KEYWORDS: *accountable,*

INTRODUCTION

The main noteworthy measure for a continued growth value of an economy is dependent on the provision of a quality infrastructure. In order to fulfill such requirements, various Public Private Partnerships or PPP or P3S are being encouraged for realization of infrastructure projects. PPP is often explained as a private business investment where two participants comprising of government as well as a private sector undertaking form a joint association or partnership. Largely PPP is a contract between government and the private sector for the provision of public services or infrastructure. Supposedly a means of fetching together social objectives with the management skills of the private sector, lessening government of the load of huge capital investment, and transferring the risk of cost transfers to the private sector. Rather than entirely shifting public assets to the private sector, as with privatization, government and business work jointly to provide services.

In a PPP, each entity / partners, usually through lawfully binding agreement (s) or some other arrangement, agrees to contribute to responsibilities related to execution and/or operation and management of a project. This tie up is built on the skills of each partner that meets openly defined public requirements through proper allocation of: Capital, Risks ,Rewards, Responsibilities

PPP requires a commitment between a public-sector and a private entity, in which the private party makes available a public service or project and takes up significant financial, technical and operational risk in the project. In some form of PPP, the cost of utilizing the service is borne entirely by the users of the service and not by the taxpayer. In other kinds (particularly the private finance initiative), capital investment is borne by the private party on the strength of a contract with government to provide agreed services and the cost of providing the service is borne wholly or in part by the government. Government assistance to a P3S may also be in kind (particularly the transfer of existing assets). In projects that are intended at creating public goods like in the infrastructure sector, the government may extend a capital assistance in the form of a one-time grant, so as to make it more attractive to the private investors. In other arrangements, the government may assist the project by giving revenue subsidies, including tax holidays or by providing guaranteed annual returns for a fixed period.

Normally, a private-sector syndicate forms a special company called a "special purpose vehicle" (SPV) to develop, build, maintain and operate the asset for the contracted period. In cases where the government has spend in the project, it is in general agreed with an equity share in the SPV. The syndicate is generally comprising up of a civil contractor, a maintenance company and bank lender(s). It is the SPV that signs the agreement with the government and with subcontractors to build the project and then maintain it. A typical PPP example would be a hospital infrastructure financed and constructed by a private developer and then leased to the hospital authority. The private developer then acts as owner, arranging housekeeping and other non-medical services while the hospital itself provides medical services.

LITERATURE SURVEY

Public sector management restructuring is a newest concern in many countries, and will remain to be, so long as governments continue to look alternatives of modernising their public administration systems, to improve service delivery, answer to domestic external pressures and meet the challenges of globalization.

This hunt for new techniques of producing and delivering public services, among other causes, has brought about new ideas such as new public management , which concentrates on the use of market-type methods linked with the private sector to bring about improvement in the management of public services (OECD (1993).

Privatisation, and public-private partnerships (P3P), fall within this framework as alternative service provision (Ford and Zussman ,1997) to conventional public procurement. The word privatisation has become a matter of discussion over the years and invokes different descriptions in different parts of the globe and subsequently for different academics. In Europe and the former USSR, privatisation refers to the selling of state-managed enterprises. In the USA, the term is more generic, an umbrella term (Hebdon, R. and H.D. Gunn ,1995) include all private sector involvement, including outsourcing and PPPs.

Some researchers (Allan, J. R. ,1999) have distinguished between outsourcing (contracting out); privatisation and PPPs, arguing that contracting out and privatisation are at extreme ends of the range of private versus public involvement, with P3P somewhere in-between. Definitely, there are significant differences between the three types of alternative service delivery. A standard contracting out engages a private-sector party giving commercially a service usually provided by the public sector itself. There is a little shift of control or risk to the private sector, and no significant private sector involvement in decision making. In contrast, to be a P3P, an system would usually be characterised by some transference of control and authority to the private sector, as well as private sector involvement in decision making. In addition the private-sector partner would likely be a contributor of capital assets as well as that of services.

The difference between complete privatisation and a P3P system is that in a P3P the public sector keeps a considerable role while in privatisation subsequent government participation is negligible unless regulation of the post-privatised entity is essential. According to Savas E (2000) privatisation is the act of reducing the responsibility of government or increasing the role of other organizations of society in producing goods and services and in owning property. What this does is altering the portfolio of activities carried out by the government, thus reducing the size of the public sector (Batley, R. and G. Larbi ,2004). The argument is therefore that New Public Management is about how to get better the management of activities that remain under public ownership by employing private sector practices, and as such, absolute privatisation should be left out of P3P discussions.

From the discussion above, it is evident that P3P have been explained in different ways by several academicians, researchers, public agencies and international organisations, with the result that a universal definition to which all would agree is indefinable (Bettignies and Ross ,2004). The fundamental component represented in these definitions is cooperation: sharing of responsibilities, decision making power and authority, sharing of risks and rewards/mutual benefit, pursuing shared or compatible objectives and joint investment. Realizing the value for money, primarily from the taxpayer's viewpoint, is also revealed as an element of PPPs.

The growing adoption of PFIs has encouraged governments globally to take up P3P arrangements. The Australian government has used P3P to deliver different social infrastructure projects, Ireland has used them mainly for transport infrastructure, in the Netherlands, social housing and urban regeneration programs have been provided through such arrangements, India is investing heavily in highways through P3P, Japan has around 20 new PPPs in the pipeline, in Canada, 20% of new infrastructure are designed, built and operated by the private sector through the same model, the USA is a pioneer with contracting out and have started experimenting with other forms of P3P emerging democracies from central Europe are also following it. The former Prime Minister of Czech Republic, Jiri Paroubek, explains that "just like any other market economy, we are trying to multiply *our* economic potential and implement projects for which the public sector alone has neither the strength nor the resources" (Eggers, W. ,2006).

In developing countries, contracting out was initiated in the mid 1980s during the first movement of governmental privatisation of state ventures, under structural adjustment programs. Policies were accepted to deal with the supposed lack of managerial capacity in government, as well as the need to stop the constant dependence of state enterprises on state subsidies (OECD ,2009). According to Deloitte, in Africa, between 1990 and 2004, approximately 14% of public sector

infrastructure was provided through a PPP, the most general sectors being water, energy and transport (Deloitte Research ,2006).

The arguments put ahead to encourage P3P initiatives are mainly based on economy efficiency gains and bringing down government overload (Starr P ,1989). Proponents of P3P are certain that whatever the government does the private sector can do better because as they follow private benefits, they serve the larger social order. In other words, due to the other activities of the private sector, there will be economies of scale to be gained(Business Council of British Columbia ,2002). They argue that economic effectiveness can be gained by allowing free market and laissez faire operations through private involvement, to determine the best way to deliver services (Starr ,1989).

Proponents of P3P also argue that the bidding process forces a more accurate and rigorous assessment of what actually needs to be provided. Even when a competition fails to result in a contract, the taxpayers still win because the competition forces government agencies to become more efficient (Van Slyke ,2003).

Partnerships also mean that the two sectors are able to divide risks that are caused by the project, optimally allocating each risk to the associate that is best able to deal with the risk (Deloitte Research ,2006). Perhaps the most common argument for P3P is that they can help lessen continual disinvestment in capital intensive projects. They can serve as a means for the infusion of private sector financing while allowing government to retain their fiscal targets and avoid taking on additional debt (Business Council of British Columbia ,2002).

In contrast, opponents of P3P regard it as a way of easing the government of its responsibilities, and they would argue that there is the risk of diminishing the welfare state, where only the bests survive and the poor are left to cope as best they can (Savas ,2000).

There are concerns of answerability regarding P3P which opponents argue weaken the benefits of P3P. The most common one is that of “off-book” financing; the private sector takes loan for investment in public infrastructure but the borrowed money are not registered on the government’s balance sheets even though they have entered into a long term agreement to repay the private sector from future revenues. Unless there is sufficient risk transfer to the private sector, the government is in effect incurring “off-book” liabilities, which could eventually become actual liabilities. Also is the fact that the cost of borrowing is generally higher for the private sector which can bring down some of the probable economic benefits of P3P.

Types of Public-Private Partnerships

Design-Build (DB): In this type, the government contracts with a private partner to design and build a service as per the requirements set by the government. After completing the service, the government takes up the responsibility for operating and maintaining it. This method is also referred to as Build-Transfer (BT).

Design-Build-Maintain (DBM): This type is similar to Design-Build with the difference that the private sector also maintains the service. The public sector retains responsibility for operations.

Design-Build-Operate (DBO): Under this type, the private sector designs and builds a service. Once the service is completed, the title for the new service is transferred to the public sector,

while the private sector operates it for a specified period. This is also referred to as Build-Transfer-Operate (BTO).

Design-Build-Operate-Maintain (DBOM): This type combines the responsibilities of design-build procurements with the operations and maintenance of a service for a fixed period by a private sector partner. At the end of that period, the operation of the facility is handed back to the public sector. This is also referred to as Build-Operate-Transfer (BOT).

Build-Own-Operate-Transfer (BOOT): In this type, the government gives a franchise to a private partner to finance, design, build and operate a service for a predetermined period of time. Ownership of the service is handed back to the public sector at the end of that period.

Build-Own-Operate (BOO): In this type, the government grants the right to finance, design, build, operate and maintain a project to a private partner, which retains ownership of the project. The private partner is not required to hand over the service back to the government.

Design-Build-Finance-Operate/Maintain (DBFO, DBFM or DBFO/M): Under this type, the private sector designs, builds, finances, operates and/or maintains a new service under a long-term lease. At the end of the lease term, the facility is handed back to the public sector. In some countries, DBFO/M covers both BOO and BOOT.

P3P can also be used for **Existing Services and Facilities** in addition to new ones. Some of these types are described below.

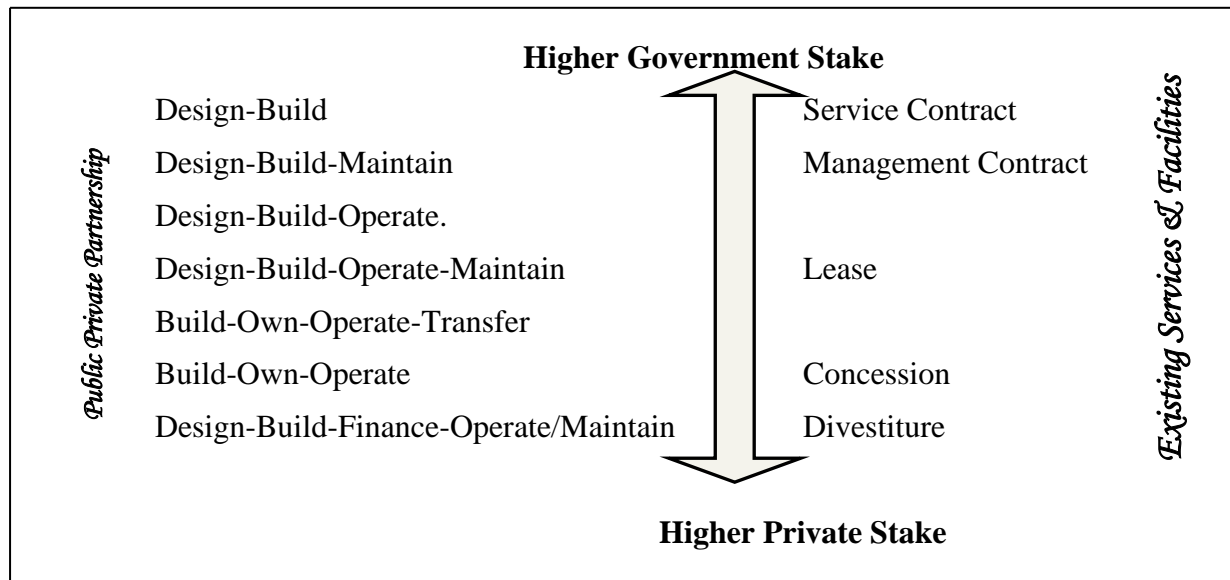
Service Contract: Under this type, the government contracts with a private partner to provide services to the facility previously performed by Government

Management Contract: In this, a management contract differs from a service contract in that the private entity is accountable for all aspects of operations and maintenance of the facility under contract.

Lease: Under this type, the government grants a private entity a leasehold interest in an asset. The private partner operates and maintains the asset in accordance with the terms of the lease.

Concession: In this system, the government grants a private entity the rights to provide operate and maintain an asset over a long period of time in accordance with performance requirements setup by the government. The public sector keeps ownership of the original asset, while the private operator retains ownership over any step up made during the period.

Divestiture: Under this type, the government transfers an asset, either in part or in full, to the private sector. Generally the government will include certain pre conditions with the sale of the asset to make sure that improvements are made and citizens continue to be served.



Benefits

The advantages of Public Private Partnerships (PPP's) include the following:

- Prompt, efficient and cost effective implementation of projects
- Value for money for the taxpayer because of optimal risk management and transfer
- Value Addition through synergies between public sector and private sector companies, in particular, through the integration and cross transfer of skills, knowledge and expertise
- Lessening of constraints through higher productivity of labour and capital resources in the delivery of projects
- Competition and higher construction capacity (including the involvement of overseas firms, especially in joint ventures and partnering arrangements)
- Responsibility for the provision and delivery of quality public services through an performance incentive management/regulatory system
- Innovation and improvement in the provision of public facilities
- Effective use of state assets to the benefit of all users of public services

PPP in India

Development and use of P3P for providing infrastructure services has now at least a decade of presence in India, with the majority of projects coming in line in the last 5 years. Policies in favor of inviting private involvement as well as innovation with different structures have met with varying level of success. Some sectors like telecommunications, power, ports and roads have done very good progress as compared to others.

Some states have taken up far more P3P than others, and a much larger use of P3P in some sectors than others.

As per a report by Ministry of Finance Government of India (www.pppindiadatabase.com), the figures are as below:

STATE WISE FIGURES						
States	Total Number of Projects based on value of contracts					
	Total Number of Projects	Based on 100 crore	Between 100 to 250 Crore	Between 251 to 500 crore	More than 500 crore	Value of contacts
Andhra Pradesh	63	1062.93	1554.27	3188.53	33473.7	39279.43
Bihar	2	4	0	418.04	0	422.04
Chandigarh	14	15	0	0	0	15
Chhattisgarh	4	70	304	464	0	838
Delhi	9	95	0	408.2	10374	10877.2
Goa	2	30	220	0	0	250
Gujarat	27	130.06	277.22	3360.9	14943.71	18711.89
Haryana	2	0	0-	756	0	756
Jharkhand	6	131	550	0	0	681
Karnataka	95	980.39	1692.55	12203.31	24615.6	39491.85
Kerala	11	114	112	615.5	11131	11972.5
Madhya Pradesh	37	1027.32	1117.28	2694.95	2949	7788.55
Maharashtra	285	118.5	745.5	1099.84	32061.95	34025.79
Orissa	16	235.1	0	500	6888.34	7623.44
Pondicherry	2	0	0	419	1867	2286
Punjab	19	537.26	434.72	572	0	1543.98
Rajasthan	49	523.92	783.79	833	3112.7	5253.41
Sikkim	24	175.59	558	2669	13708	17110.59
Tamil Nadu	30	143.31	555.6	6412.87	5340	12451.78
Uttar Pradesh	5	0	0	1458.57	649.21	2107.78
West Bengal	5	0	200	1214.4	641	2055.4
Inter-State	13	160.45	195	2294.67	5984	8634.12
Total	450	5638.83	9299.93	41582.78	167739.21	224175.8

SECTOR WISE FIGURES						
Sector	Total Number of Projects	Based on 100 crore	Between 100 to 250 crore	Between 251 to 500 crore	More than 500 crore	Value of Contacts
Airports	5	0	0	303	18808	19111
Education	1	93.32	0	0	0	93.32
Energy	24	175.59	558	2669	13708	17110.59
Ports	43	96	970	2440	62992.95	66498.95
Railways	4	0	102.22	905	594.34	1601.56
Roads	271	3162.5	5526.49	32861.87	60453.92	102004.7
Tourism	29	742.56	674.52	0	1050	2467.08
Urban Development	73	1283.86	1468.7	2403.91	10132	15288.47
Total	450	5638.83	9299.93	41582.78	167739.21	224175.8

Problems/limitations

Despite of its benefits and increasing adoption of PPP, there are some constraints too which can be summarized as:

- Ability to undertake long-term equity cannot be provided by the market in the present financial scenario.
- Most sectors face a lot of obstacles because of stringent regulatory framework. So its important to convert such policies into PPP friendly and active participation of various state projects are essential.
- Lack of ability of private sectors to fit into the risk of investing in diversified projects because of the lack of expertise and skilled manpower. This is primarily seen in the projects like modernization of new airports, transmission systems and building power generating plants.
- Lack of credibility of bankable infrastructure projects used for financing the private sector should also be addressed.

CONCLUSION

Although public-private partnerships (PPP/P3P) are not the only solution for the limitations of public management, they have added significantly to improving public services, and continue to help government with much needed resources to close the infrastructure gap. This paper has attempted to bring forth the basic understanding of public private partnership besides tracing its past and looking into present. In addition to the benefits discussed above, governments and donor deciding whether to engage in P3P should consider the type of arrangement. In the same manner, they should seek to understand the nature of skills that are lacking. Constraints to P3P are usually due to a lack of professional skills rather than managerial skills. In growing markets, assistance from multilateral banks can complement private financing where pure private financing is not feasible for projects.

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