Public Private Partnerships (PPPs): Analysing the factors behind their growth

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The economic perspective in favour of PPP is that they present an attractive alternative to the market and contractualised relationships and are viewed to be broader in scope than privatisation and a qualitative leap from traditional contracting

THE TERM 'Public Private Partnership' or 'PPP' has become a buzzword of late in the policy circles, and is being increasingly resorted to as a preferred medium for provisioning of public services both within the industrialised and low-income countries. While the PPPs are more commonly found in the transport infrastructure sector, such as roads, airports, and ports (primarily due to the commercial pricing models), they are also invoked in water supply and sanitation, tourism, education, health, and other social sector programmes, albeit to a lesser degree. A significant difference is however observed in the nature of PPPs across these sectors. In many cases they appear to be glorified forms of service level agreements rather than 'partnerships' as are defined in the normative literature on PPPs.

Engagement with the private sector for provisioning of infrastructure facilities has become increasingly popular in the past few decades. India too has joined the bandwagon of countries adopting PPPs for delivery of services under various infrastructure sectors. It is claimed that India has the maximum number of projects within PPP in the transport sector. Its experience in highways and expressways has been substantial. All national highways in the present phase of NHDP (National Highways Development Programme) are being implemented within PPP mode. Recently, the empowered Group of Ministers on infrastructure has decided that 95% of road projects in the current year will be through PPP. Several airports are being built with private sector participation, while some metro-rail projects, such as the Hyderabad metro, are also opting for this approach rather than the traditional way of public sector delivery. According to the Economic Survey 2010-2011, against a target of 30% of private sector participation in infrastructure sector, the achieved figure was 34%. An investment of USD 1 trillion has been envisaged for infrastructure during the 12th Plan; of this USD 500 billion is

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expected to be contributed by the private sector. These figures demonstrate the primacy given to private sector participation at the policy level.

Against this background, this article attempts to provide theoretical insights into the concept of PPP, and analyses the reasons for its growth and acceptance as a mode of service delivery in many countries.

Growth of PPPs

There have been instances of the State engaging with the private sector towards provisioning of public services throughout the known history- the case of Mathew, private tax-collector from the Bible; public street lamps in 18th century England were cleaned by private contractors; the rail companies of 19th century England and the US were privately owned; 82% of Sir Frances Drakes fleet of 197 vessels, which conquered the Spanish armada, were owned by contractors. Toll roads and toll bridges, privately owned and operated, has been around since antiquity. Toll roads carry mention in writings of the Greek historian and philosopher Strabo (63 BC-AD 21) in *Geographi*a during the time of Caesar Augustus, where he records existence of tolls on the Little Saint Barnard Pass. Historical development of PPPs in infrastructure had its beginning in Europe in the demand for mass travel and long distance commerce in second half of 17th century. France pioneered the concession type model in 17th century which was extensively used in the 19th century to finance and develop public infrastructure.

However, Public Private Partnerships as are known in their current form started in the Organisation for Economic Co-operation and Development (OECD) countries and the USA. These gradually spread to the low-income countries. Reliance on PPPs as a preferred mode of service delivery rose to significant proportions during the 1990s, peaking around 1997. Governments under Presidents Carter and Reagan in the USA and Margaret Thatcher in UK promoted wide range of partnerships at all levels of the State. Among all the countries adopting PPPs, UK has had the maximum number of projects implemented under the Public Finance Initiative (PFI) initiated in 1992. PPPs have been now included in legislation in many countries such as the urban policy legislation of UK and USA, industrial policies of France, and economic development policies of Italy, Netherlands and UK. While Netherlands, Australia, Hungary, Italy, Japan, Korea, Spain and France have had substantial experience in implementing infrastructure projects under PPP, countries like Chile, Brazil, Singapore, India, and Canada are actively exploring this mode of delivery of public services. PPPs form the core of European Union (EU) initiatives for economic competitiveness and are the preferred framework for development of trans-European transportation. Recently the European Commission has advocated greater use of PPPs for provisioning of infrastructural services and bringing in innovation in service delivery.

Understanding the context of PPPs

Different definitions and interpretations have been associated with the term Public-Private Partnerships. These depend upon the context within which they are initiated and operated. Simply put, the term PPP traditionally implies engaging with the private sector for provisioning of public services and infrastructure such as roads, airports, ports, health services, garbage and waste management. Such services have been historically provided by the government through public works agencies. According to some, PPP is a framework for describing all cooperative ventures between the State and the non-State agencies, both for profit and not-for-profit. Within the limited context of transport infrastructure sector, PPP is defined as a long term collaborative effort between the government and private agencies, wherein both pool in their differentiated and specialised resources for planning, design, construction, operation and maintenance of infrastructure services. They also share investments, risks, benefits and responsibilities. This feature of the PPP has been argued to form the crux of the partnership. The facility thus developed eventually reverts back to the government after expiry of the concession period. In India this period ranges from 20 to 30 years.

A common misconception about PPPs is that they involve the private sector merely for financial partnering. However, PPPs are more about a service procurement policy rather than a capital asset management policy; they do not do away with public investment but merely supplement it. Within a PPP the private partner is involved in a broader ambit of 'infrastructure investment' where neither the private sector nor the government is the only owner.

PPPs are perceived to provide public services more efficiently than what the government could accomplish on its own. In the classical literature on public administration, there is a distinct divide between the roles and responsibilities between the State and the private sector, often termed as 'the market'. While some works were to be taken up by the government agencies due to their social and economic mandate, some services were delivered by the agencies. However, the traditional conceptualisation of the state being the sole provider of services and goods for public welfare came under severe strain in the decades since 1970s. In the 1970s and 1980s, as the demand for public infrastructure grew and governments became increasingly fund starved, due to deficit financing and populist pressures to hold prices below costs, their capacity to provide sufficient and quality infrastructure was found to be inadequate. The public utilities were therefore largely neglected. In most of the developing low-income countries it was found that public finance for infrastructure was generally inadequate and full cost recovery of infrastructure charges was becoming more of an exception than a rule. In addition to poor allocation of funds for development of infrastructure, maintenance got even little, which was assumed to be funded by future budgets which were typically insufficient. Traditional methods also left a number of risks with the public sector, regarding the asset ownership. This is attributed to its monopoly position with no incentive for competition, poor fiscal discipline and limited fiscal autonomy to public bodies and managerial inefficiency which increases production cost. Many governments attempted to improve performance through corporatisation and performance contracts which were largely unsuccessful.

Furthermore, the government in its controlling and regulating mode was found to be outdated, path dependent and inflicted with the pathology of politicized bureaucracy. This was attributed to bounded rationality of decision makers, predisposition toward rigidity, extreme focus on rule rather than the outcome, and growing rent seeking behaviour of policy makers. The government agencies came to be widely perceived to be inefficient and inadequate because of their hierarchical and vertical structures of management and incapable of delivery of quality public services which could be sustained over a long period of time.

The private sector, on the other hand, was seen as a better allocator of services, more efficient in delivery and management of services, and innovative, flexible and agile to respond to market changes. In the USA, the early enthusiasm towards PPPs grew in the background of 'privatism', which dominated American thinking since early 19th century. This presumed the private sector to be intrinsically superior for delivery of public services. This new philosophy was moored in neo-classical and new institutional economics. A market focus coupled with 'supply and demand' and 'user pays' ethos tried to infuse entrepreneurial management techniques from the private sector to increase public sector efficiency through contracts and competition within the public agencies and with private sector. It stressed on disaggregation of public services, measured performance, output control and growth of markets, and hence, price signals. What initially started as infusing features of the private sector in management of public organisations, in late 1970s, slowly transformed (in 1990s) into a much larger role of private sector in providing finances, manpower and technological resources during the construction of the assets, and management of the services subsequently.

In the more recent discourses on PPPs, these have been viewed as new forms of governance. They are being analysed as '*governance networks*' between the State and non-State actors aimed towards collaboration, co-production, co-management and communicative governance. They are being viewed as an alternative way of provisioning of public services that combines the features of both the State and the market, and as a response to limitations to markets and hierarchies with regard to allocation of resources and provisioning of services. As a hybrid mix of the two forms, they typically mix virtues of state, like accountability, probity, legitimacy and transparency, and efficiency and quality attributes of the market.

Moreover, they are argued to represent a relational dimension of the State where the State extends itself beyond its theoretically determined boundaries, and partners with various agencies in order to achieve its social and economic goals. PPPs also reflect the welfare state being replaced by the 'competition state' which behaves more like a market player and takes the lead in spearheading the structural transformation of markets and brings about policy changes involving the private sector. This shift is being attributed the changing meaning of what constitutes the 'public' and the 'private' sectors. The traditional divides between the two domains are being blurred, and new forms of governance models are providing frameworks for delivery of public services.

Categorising PPPs

PPPs are often classified into 'economic' and 'social' blocks and are further distinguished as 'hard' and 'soft'. While roads, railways, telecommunication and airports fall under the 'hard economic' category, areas like vocational training, technology transfer and Research and Development (R&D) facilitation are termed as 'soft economic'. Water treatment, housing and prisons and childcare are labelled as 'hard social' whereas social security, environment services and community services are included in 'soft social' category.

PPPs are also distinguished on the basis of stages in which partnership is entered into. It can be either in the 'planning and design' stage or at the 'realisation' stage. As financial arrangements, PPPs have been observed to take different forms. There are various terms for them, such as BOT (Build Operate Transfer), BOO (Build Own Operate), Build Own Operate Transfer (BOOT), and Design Build Finance Operate (DBFO). The DBFO model appears to be most preferred PPP model across the world.

Analysis of factors contributing to growth of PPPs

Many factors have been identified for the growth of PPPs. These have been varied across sectors and countries, depending on the context of the prevalent structures within which PPPs operate. As mentioned earlier, on a larger canvas, growth of PPPs is widely credited to the implicit assumption that the market stands for better efficiencies in production and delivery of services, and partnering with the market infuses reform, competition, discipline and entrepreneurial spirit in the government. PPPs reflect larger ideological changes in debates of governance and the transformation of the State-market relationship where partnerships may not only be the result, but also the cause of these changing equations.

PPPs have become the preferred alterative of many 'third way' governments which provides them an option to tread the middle path between outright privatisation and nationalisation. Many governments attempt to fill the 'capability gap' in areas where they lack technical expertise through these alliances.

But the most significant reason for opting for a partnership is the resource dependency between the two partners. The new theory of resource- interdependence is based on the argument that to be effective, governments must blend their capacities with those of the various non-governmental actors. PPPs enable pooling of specialised complementary resources of the two partners. They provide easy access to private finance, managerial knowledge and entrepreneurial skills of the manpower in design, construction and management of assets and facilities created. Specialisation of the private partner helps to reduce the final total cost. This enhances the efficiency gains due to improved resource allocation, effective organisation and innovative solutions for meeting demands of specific segments of users. Furthermore, engaging with the private sector at the stage of problem definition ushers in specialised knowledge in the decision making and policy process. Working on design and execution of a joint project ostensibly results in rapid dissemination of skills and information, reduced development time and fewer errors.

PPPs also enable risk-sharing with the private sector.

Infrastructure projects often involve risks which though unvalued, are purported to carry a cost. These are all the more in a PPP- the multitude of actors, highly technical tendering, contract evaluation and closure processes make PPPs a complex procurement and investment process. Some of these risks can be transferred to the private sector, which is perceived to be in a better position to identify, evaluate and mitigate it at the lowest cost, thus lowering total project cost and resulting in cost-effective services. Also, due to their more flexible and adaptable forms of management, the private sector can respond more nimbly to threats and opportunities as compared to the public sector.

Analysing this from the perspective of collaborative governance, it is claimed that that no single actor has the resources, knowledge or sufficient action potential to handle issues or dominate unilaterally. All governments today face a vast array of interests, and aggregation is seen as a functional requirement and reality. The new meaning of governance does not point to *state* actors as the only entities in policy making and allocation of resources. In this milieu, amorphous non-state agencies possessing differentiated expertise inform the collective policy process. In this mode, the government collaborates with other actors for both formulating and implementing policies. As new forms of governance, collaboration and not competition is the central theme of partnerships; as joint ventures they stabilise the volatilities in the market, and mitigate competitive pressures instead of exploiting them.

PPPs enable governments of the low-income countries to tide over huge public debt and introduce innovation in design and delivery of public service thereby ensuring its long term sustainability. The economic perspective in favour of PPP is that they present an attractive alternative to the market and contractualised relationships and are viewed to be broader in scope than privatisation and a qualitative leap from traditional contracting. Fiscal pressures have often led governments to look for innovative solutions to maximise effectiveness in reallocating resources. Due to the 'buy-now, pay-later' attribute, PPPs are 'off the balance sheet'. This means that PPP finances do not appear as large capital expenditures in the year that they occur, but as series of smaller revenue expenses over the life of the project. Evidence suggests that this helps increase Value for Money (VFM) of the investment; keeps public sector budgets, and especially budget deficiencies, in control; allows the public sector to avoid up-front capital costs thereby, reducing expenditure on large capital intensive projects. Moreover, the fiscal space created helps boost medium-term growth and generate fiscal revenue in the future. Governments can allocate resources to other policy priorities as PPPs are financed off the balance sheet. According to few scholars, the partnership model has been precipitated by economic globalisation which has structurally altered the nature of the welfare State. Governments are forced to reduce capital spending while still having social goals.

According to some authors, as a public policy representing the government's wider approach towards infrastructure delivery, PPPs carry a significant political undercurrent. Promise of faster delivery of infrastructure projects and an immediate cut in capital expenditure has potential to generate significant political incentives, especially in the short run. PPPs enable politicians to deliver more projects in a short time, demonstrating policy achievement and acting as a tool for harnessing short term political gains. Furthermore, politicians have a tendency to argue their cases based on the successful cases rather than the failures. Politicians are also seen to be gaining from the improved relations with the construction business houses.

Conclusion

The article provided a brief description of the growth of PPPs, and explained its basic features. The reasons behind the acceptance and growth of PPPs as a new mode for delivery of public services were explored and analysed. The perspectives of resource-dependency, economic efficiency, political imperatives and new mode of governance were also examined. ❑

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