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# UNIT 4 PUBLIC PRIVATE PARTNERSHIP FOR URBAN DEVELOPMENT

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## 4.1 INTRODUCTION

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PPP models have been applied in many countries around the world and some infrastructure sectors are more conducive to PPP than others. In which, the power sector and transport sector have received most PPP model. There are ranges of reasons including better potential for cost recovery, higher political commitment due to the sector's importance for country economic growth etc. Nevertheless, this does not mean that PPP in other sectors is without prospects. With appropriate modalities, support for capacity development, and political commitment to sector reform, PPP is feasible in others sectors as well.

Urban development plays important role in country development; the possible good of urbanization can solve many problems such as housing, environment, infrastructure systems etc. Due to supplying the private sector's expertise, efficiency, innovation, risk sharing, financing etc. into public project, the quality of public facilities and services can be uplifted. India has the second largest urban population in the world and is likely to see significant growth in number of people living in cities over the next two decades. Ensuring quality urban services to this large, growing population would be crucial to realising India's vision of urban development. Infrastructure development at this scale would require huge resources and it was not feasible for the government alone to fund the total required infrastructure investment. PPPs are useful only if they ensure quality supply at reasonable cost stressing the need for the establishment of independent regulatory bodies with an appeal mechanism.

After reading this unit you will be able to:

- understand the importance of PPP in Urban Development;
- describe various forms of PPP models;
- illustrate examples of successful PPP models on International front;
- illustrate examples of successful PPP models on national front.

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## 4.2 PUBLIC PRIVATE PARTNERSHIP: MEANING, OBJECTIVES AND IMPORTANCE

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### 4.2.1 Definition of Public Private Partnership (PPP)

PPP are collective efforts, between public and private sectors, with clearly identified partnership structures, shared objectives and specified performance indicators. According to UNECE (United Nations Economic Commission for Europe) PPP refers to innovative methods used by the public sector to contract with the private sector who bring their capital and their ability to deliver projects on time and to budget while the public sector retains the responsibility to provide these services to the public in a way that benefits the public and delivers economic development as an improvement in the quality of life. The Canadian Council for Public Private Partnership defines PPP as a co-operative venture between the public and private sectors, built on the expertise of each partner, that best meets clearly defined public needs through the appropriate allocation of resources, risks and rewards.

### 4.2.2 Objectives of Public Private Partnership

Some of the objectives of PPPs are as follows:

- 1) Improving access to essential services
- 2) Improving quality of services available
- 3) Exchange of expertise
- 4) Mobilize additional resources for activities
- 5) Improve efficiency
- 6) Better management of services
- 7) Increasing scope and scale of services
- 8) Increasing community ownership of programmes
- 9) Ensuring optimal utilization of government investment and infrastructure
- 10) Cost-effectiveness and division of assignments
- 11) Promote co-ordination, collaboration and cooperative development

### 4.2.3 Importance of PPP

It is estimated that more than half of the world's population today lives in the cities, towns and other urban spaces. Current trends predict that this number will continue to rise with urban population growth. According to the World Bank, over 90 percent of recent urbanization has occurred in developing countries, with urban areas gaining an estimated 70 million new residents each year. This trend is especially prevalent in South Asia and Sub-Saharan Africa, the two poorest regions in the world, where the urban population is expected to double by 2030. For an economy to grow in a sound manner, it is important that the cities are well managed. For this very reason, the pressure on the government to provide with the basic human needs of health care, clean water and sanitation rises when the process of urbanization grows at a fast rate.

The urban areas differ in their characteristics and problems from country to country. However one thing that is common to the urban areas across the globe

is that the finances needed for different urban development projects are too high to be provided by the public sector alone. Taking this into consideration, many nations are exploring the possibility of PPP for large scale investments in providing the basic infrastructure to the urban multitude. Traditionally the role of private sector was limited to providing skilled labour under short term contracts with the delivery of service being the sole responsibility of the public sector. However a PPP allows a private consortium to assume risk

#### **4.2.4 Advantages of PPPs**

##### **Cost Savings**

Cost savings materialize in several different forms (discussed below) but are mainly due to the private sector's role as a mutual partner in the project. Generally speaking, the private partner's fundamental drive for economic gain yields it an incentive to continually improve its performance, thereby cutting overall project costs.

##### **Whole of Life-Cycle**

Public-private partnerships combine two or more of the project's phases in a single bundle for the private consortium to deliver over the long-term. This creates economies of scale by motivating the private sector to organize its activities in a way that drives efficiencies and maximizes returns on investments.

##### **Output-Based Contracts**

Public-private partnership projects typically adopt an output-focused contract which links payments to performance. This specifies project results in terms of the quality delivered, rather than how assets or services are provided.

Emphasis on outputs also encourages innovation to take place by motivating the private partner to develop new methods and approaches for project delivery that meets requirements at lower costs.

##### **Risk sharing**

Public-private partnerships are designed so that risk is transferred between the public and private sectors, allocating particular project risk to the partner best able to manage that risk cost-effectively.

##### **PPPs Deliver On-Time**

With financing risk routinely transferred to the private consortium, any delays in meeting the agreed upon timelines can lead to additional costs for the private partner as it alone carries the debt for a longer period of time. Therefore, the private sector has a direct financial interest in ensuring that projects and services are delivered on-time, if not sooner.

##### **Enhancing Public Management**

By inviting the private partner in, the public authority can transfer risks and responsibilities over the day-to-day operations of two or more phases of the urban infrastructure project to the private consortium. This frees the public sector to focus on other important policy issues such as regulating, performance monitoring and urban service planning.

### **Improved Levels of Service**

By bringing together the strengths from the public and private sectors, PPPs have the unique ability to share a diverse range of resources, technologies, ideas and skills in a cooperative manner that can work to improve how urban infrastructure assets and services are delivered to the people.

### **Increased Availability of Infrastructure Funds**

Public-private partnerships free up funding for other urban infrastructure projects in two ways: first, through the potential cost savings inherent in the PPP approach, and second, through access to private financing which commits the government to spread payments for services rendered over a longer period of time. Seeing that it is the private partner who typically absorbs the financing risk, the public authority is not obliged to record the investment upfront as part of its bottom line surplus or deficit for that fiscal year. This allows the transaction to remain 'off balance sheet', meaning the government can borrow money for other important projects without affecting calculations of the measure of its indebtedness.

## **4.2.5 Some Disadvantages of PPPs**

### **Additional Costs**

Public-private partnerships represent good opportunities to lower overall project costs. However, when compared with traditional procurement, the complete PPP process invites additional costs that, if not managed properly, can erode some of the potential economic benefits of this model. One of these potential cost drivers is identified in the tender process - a competitive approach to choosing a project partner unique to the PPP procurement model. Parties bidding for a project expend considerable skills and resources in designing and evaluating the project prior to implementation. Depending on the number of project bidders, costs can add up as all participating bids tend to be factored into the overall cost of the project.

Second, the long-term and inclusive nature of a PPP contract requires that each partner spend considerable time and resources on outside experts to help anticipate and oversee all possible future contingencies. This can be very costly, particularly for a public agency inexperienced with the private sector and requiring additional help to protect the public interest. Last, while the private financing element of the partnership is one of the most important incentive drivers for the private partner, the price of financing can result in higher capital costs ranging between 1 and 3 percent. Unless cost savings generated by the private consortium outweigh the added cost of private loan financing, a PPP project may not deliver cost savings.

### **Reduced Control of Public Assets**

In view of the fact that the private sector absorbs a significant portion of the project risk, important decisions over outcomes are inadvertently shared with that partner. Accordingly, this can result in the loss of public control over important decisions concerning a range of public issues, from how basic public goods such as housing and clean water should be delivered and priced, through to on-site labour issues around job pay and security.

### Loss of Accountability

Partnerships are typically governed by a complex web of contracts which extend responsibility over the provision of housing and other urban service to a wide range of partners. If not clearly defined, contracts can overlap roles and responsibilities and blur lines of accountability for the public taxpayer.

### Mitigating Risk

The more complex the urban project and the more people involved the higher and more varied the risk becomes. Although a carefully structured PPP manages risk through a well-defined contractual agreement, some risk is unforeseen and therefore difficult to mitigate. In the case of such unexpected risk (or project failure), oftentimes it is the public authority that is left to not only pay for the failure of the risk, but also the emerging costs.

After reading this section, you would have gained some idea about public private partnership. Now you should be able to answer the questions given in *Check Your Progress 1*.

### Check Your Progress 1

**Note:** a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit

1) Write any five objectives of PPP.

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2) How does PPP facilitate risk sharing?

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## 4.3 TYPES OF PUBLIC PRIVATE PARTNERSHIPS

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The PPP models vary from short-term simple management contracts (with or without investment requirements) to long-term and very complex BOT form, to divestiture.

The variations in the models may be due to

- Ownership of capital assets
- Responsibility for investment

- Assumption of risks, and
- Duration of contract.

The PPP models can be classified into four broad categories in order of increased involvement and assumption of risks by the private sector. These categories include

- 1) Management contracts
- 2) Turnkey
- 3) Lease
- 4) Concessions
- 5) Private ownership of assets

**1) Management Contracts:** A management contract is a contractual arrangement for the management of a part or whole of a public enterprise by the private sector. Management contracts allow private sector skills to be brought into service design and delivery, operational control, labour management and equipment procurement. However, the public sector retains the ownership of facility and equipment. The private sector is provided specified responsibilities concerning a service and is generally not asked to assume commercial risk. The private contractor is paid a fee to manage and operate services. Normally, payment of such fees is performance-based. Usually, the contract period is short, typically two to five years. But longer period may be used for large and complex operational facilities such as a port or airport.

There are several variants of the management contract including:

- a) Supply or service contract
- b) Maintenance management
- c) Operational management

**a) *Supply or service contract:***

Supply of equipment, raw materials, energy and power, and labour are typical examples of supply or service contract. A private concessionaire can itself enter into a number of supply or service contracts with other entities/providers for the supply of equipment, materials, power and energy, and labour. Non-core activities of an organization (public or private) such as catering, cleaning, medical, luggage handling, security, and transport services for staff can be undertaken by private sector service providers. Such an arrangement is also known as outsourcing. Some form of licensing or operating agreement is used if the private sector is to provide services directly to users of the infrastructure facility. Examples of such an arrangement include, catering services for passengers on railway systems (the Indian Railways, for example). The main purpose of such licensing is to ensure the supply of the relevant service at the desired level of quantity and quality.

**b) *Maintenance management***

Assets maintenance contracts are very popular with transport operators. Sometimes equipment vendors/suppliers can also be engaged for the maintenance of assets procured from them.

*c) Operational management*

Management contracts of major transport facilities such as a port or airport may be useful when local manpower or expertise in running the facility is limited or when inaugurating a new operation. Management contracts are also quite common in the transport sector for providing some of the non-transport elements of transport operations such as the ticketing system of public transport and reservation systems. Operational management of urban transport services can also be contracted out to the private sector. In the simplest type of contract, the private operator is paid a fixed fee for performing managerial tasks. More complex contracts may offer greater incentives for efficiency improvement by defining performance targets and the fee is based in part on their fulfilment.

- 2) **Turnkey:** Turnkey is a traditional public sector procurement model for infrastructure facilities. Generally, a private contractor is selected through a bidding process. The private contractor designs and builds a facility for a fixed fee, rate or total cost, which is one of the key criteria in selecting the winning bid. The contractor assumes risks involved in the design and construction phases. The scale of investment by the private sector is generally low and for a short-term. Typically, in this type of arrangement there is no strong incentive for early completion of a project. This type of private sector participation is also known as Design-Build.
- 3) **Lease:** In this category of arrangement an operator (the leaseholder) is responsible for operating and maintaining the infrastructure facility and services, but generally the operator is not required to make any large investment. However, often this model is applied in combination with other models such as build-rehabilitate-operate-transfer. In such a case, the contract period is generally much longer and the private sector is required to make a significant level of investment.

The arrangements in an afterimage and a lease are very similar. The difference between them is technical. Under a lease, the operator retains revenue collected from customers/users of the facility and makes a specified lease fee payment to the contracting authority. Under an affermage, the operator and the contracting authority share revenue from customers/users. Following Figure shows the typical structure of an affermage/lease contract. In the affermage/lease types of arrangements, the operator takes lease of both infrastructure and equipment from the government for an agreed period of time. Generally, the government maintains the responsibility for investment and thus bears investment risks. The operational risks are transferred to the operator. However, as part of lease, some assets may be transferred on a permanent basis for a period which extends over the economic life of assets. Fixed facilities and land are leased out for a longer period than for mobile assets. Land to be developed by the leaseholder is usually transferred for a period of 15-30 years.

It may be noted here that if the assets transferred to the private sector under a lease agreement are constrained in their use to a specific function or service, the value of assets is dependent upon the revenue potential of that function or service. If assets are transferred to the private sector without restrictions of use, the asset value is associated with the optimum use of the assets and the revenues that they can generate.

- 4) **Concessions:** In this form of PPP, the Government defines and grants specific rights to an entity (usually a private company) to build and operate a facility for a fixed period of time. The Government may retain the ultimate ownership of the facility and/or right to supply the services. In concessions, payments can take place both ways: concessionaire pays to government for the concession rights and the government may also pay the concessionaire, which it provides under the agreement to meet certain specific conditions. Usually such payments by government may be necessary to make projects commercially viable and/or reduce the level of commercial risk taken by the private sector, particularly in the initial years of a PPP programme in a country when the private sector may not have enough confidence in undertaking such a commercial venture. Typical concession periods range between 5 to 50 years. It may be noted that in a concession model of PPP, an SPV may not always be necessary.

Concessions may be awarded to a concessionaire under two types of contractual arrangements:

- a) Franchise
- b) BOT type of contracts

**a) Franchise**

Under a franchise arrangement the concessionaire provide services that are fully specified by the franchising authority. The private sector carries commercial risks and may be required to make investments. This form of private sector participation is historically popular in providing urban bus or rail services. Franchise can be used for routes or groups of routes over a contiguous area.

**b) Build-Operate-Transfer**

In a Build-Operate-Transfer or BOT (and its other variants namely Build-Transfer- Operate (BTO), Build-Rehabilitate-Operate-Transfer (BROT), Build-Lease-Transfer (BLT)) type of arrangement, the concessionaire undertakes investments and operates the facility for a fixed period of time after which the ownership reverts back to the public sector. In this type of arrangement, operating and investment risks can be substantially transferred to the concessionaire. However, in a BOT type of model the government has explicit and implicit contingent liabilities that may arise due to loan guarantees provided and default of a sub-sovereign government and public or private entity on non-guaranteed loans. By retaining ultimate ownership, the government controls policy and can allocate risks to those parties best suited to bear them or remove them.

In a BOT concession, often the concessionaire may be required to establish a special purpose vehicle (SPV) for implementing and operating the project. The SPV may be formed as a joint venture company with equity participation from multiple private sector parties and the public sector. In addition to equity participation, the government may also provide capital grants or other financial incentives to a BOT project. BOT is a common form of PPP in all sectors in Asian countries. A large number of BOT port and road projects have been implemented in the region.

Under the Build-Rehabilitate-Operate-Transfer arrangement, a private developer builds an add-on to an existing facility or completes a partially built facility and rehabilitates existing assets, then operates and maintains the facility at its own risk for the contract period. BROT is a popular form of PPP in the water sector. A key distinction between a franchise and BOT type of concession is that, in a franchise the authority is in the lead in specifying the level of service and is prepared to make payments for doing so, whilst in the BOT type the authority imposes a few basic requirements and may have no direct financial responsibility.

- 5) **Private ownership of assets:** In this form of participation, the private sector remains responsible for design, construction and operation of an infrastructure facility and in some cases the public sector may relinquish the right of ownership of assets to the private sector.

It is argued that by aggregating design, construction and operation of infrastructure services into one contract, important benefits could be achieved through creation of synergies. As the same entity builds and operates the services, and is only paid for the successful supply of services at a pre-defined standard, it has no incentive to reduce the quality or quantity of services. Compared with the traditional public sector procurement model, where design, construction and operation aspects are usually separated, this form of contractual agreement reduces the risks of cost overruns during the design and construction phases or of choosing an inefficient technology, since the operator's future earnings depend on controlling costs. The public sector's main advantages lie in the relief from bearing the costs of design and construction, the transfer of certain risks to the private sector and the promise of better project design, construction and operation.

There can be three main types under this form:

- a) Build-Own-Operate type of arrangement
- b) Private Finance Initiative (a more recent innovation)
- c) Divestiture by license or sale

**a) Build-Own-Operate**

In the Build-Own-Operate (BOO) type and its other variants such as Design-Build-Finance-Operate, the private sector builds, owns and operates a facility, and sells the product/service to its users or beneficiaries. This is the most common form of private participation in the power sector in many countries. For a BOO power project, the Government (or a power distribution company) may or may not have a long-term power purchase agreement (commonly known as off-take agreement) at an agreed price from the project operator.

In many respects, licensing may be considered as a variant of the BOO model of private participation. The Government grants licences to private undertakings to provide services such as fixed line and mobile telephony, Internet service, television and radio broadcast, public transport, and catering services on the railways. However, licensing may also be considered as a form of "concession" with private ownership of assets. Licensing allows competitive pressure in the market by allowing multiple operators, such as in mobile telephony, to provide competing services.

There are two types of licensing: quantity licensing and quality licensing. By setting limits through quantity licensing, the government is able to moderate competition between service providers and adjust supply between one area and other. Quality licensing however, does not place any restriction on number of providers or the amount of service produced but specifies the quality of service that needs to be provided. The government may get a fee and a small share of the revenue earned by the private sector under the licensing arrangement.

**b) Private Finance Initiative**

In the Private Finance Initiative (PFI) model, the private sector similar to the BOO model builds, owns and operates a facility. However, the public sector (unlike the users in a BOO model) purchases the services from the private sector through a long-term agreement. PFI projects therefore, bear direct financial obligations to government in any event. In addition, explicit and implicit contingent liabilities may also arise due to loan guarantees provided to lenders and default of a public or private entity on non-guaranteed loans.

In the PFI model, asset ownership at the end of the contract period may or may not be transferred to the public sector. The PFI model also has many variants. The annuity model for financing of national highways in India is an example of the PFI model. Under this arrangement a selected private bidder is awarded a contract to develop a section of the highway and to maintain it over the whole contract period. The private bidder is compensated with fixed semi-annual payments for his investments in the project. In this approach the concessionaire does not need to bear the commercial risks involved with project operation.

Apart from building economic infrastructure, the PFI model has been used also for developing social infrastructure such as school and hospital buildings, which do not generate direct “revenues”.

**c) Divestiture**

This third type of privatization is clear from its very name. In this form a private entity buys an equity stake in a state-owned enterprise. However, the private stake may or may not imply private management of the enterprise. True privatization, however, involves a transfer of deed of title from the public sector to a private undertaking. This may be done either through outright sale or through public floatation of shares of a previously corporatized state enterprise.

Full divestiture of existing infrastructure assets is not very common. However, there are many examples of partial divestiture.

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## **4.4 PPP IN THE INTERNATIONAL ARENA**

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### **1) Sustainable energy use for urban development (London)**

International and national governments are promoting sustainable development and renewable energies through direct lending, changes to legislation, financial incentives, and building and construction regulations and indicators. A 2008

report by Deloitte concludes, however, that “PPP [Public-Private Partnership] financing is often the appropriate answer to renewable energy financing.” As a result, a number of municipalities are increasingly turning to models of Public-Private Partnerships to finance renewable energies, and these partnerships may take a variety of forms depending on the needs of those involved and the parameters of the project.

The following case studies illustrate examples of European cities that have taken advantage of the variety of PPP models to launch successful renewable energy systems:

### **London**

#### **Woking Borough Council’s Thamesway Energy Limited**

The Woking Borough Council, a public authority based outside of London, established Thamesway Energy Limited in 1999 as an Energy Service Company (ESCO) that owns, operates, and manages the heat, electricity, and water supply in the borough. Thamesway is a PPP between the Borough Council and Xergi Limited, a Danish energy company which owns 10% of the shares. By utilizing the PPP model, Woking was able to surpass government controls on local government spending, establish a Combined Heat and Power (CHP) plant, and build a private wire renewable energy system and fuel cell CHP system. The private system also allows the Borough to save on fees associated with accessing the national power grid, to which it is connected as a back-up supplier.vi

The benefits of the CHP system are considerable. From 1990 to 2004, the Borough experienced a 48.6% reduction in energy consumption and a 17.23% reduction in CO2 emissions from 2002. Additionally, all residents have received free or subsidised insulation, allowing the Borough to save 91,270 tonnes of energy per year. The Borough credits its success to the technical, financial, and commercial innovation gained by working in partnership with the private sector, and has proven how a PPP model can provide additional flexibility and capital in what would otherwise be a strict planning environment.

*Source: (ULI, 2011)*

### **2) Multi-utility Complex in Warsaw**

Warsaw lacked the infrastructure it needed in order to organize large, prestigious sports, business and cultural indoor events. In order to meet this need, city officials specified that the Arena Varsovia Centre needs to be constructed with a capacity of holding 12,000 people. The design and building risks lie entirely with the private partner. The management of the facility would however be in the hands of the public partner.

### **3) Handwashing for Diarrheal Disease Prevention in Central America**

The Central American Handwashing Initiative aimed to reduce morbidity and mortality among children under five through a coordinated communication campaign promoting proper handwashing with soap to prevent diarrheal disease. The Initiative was conceived and facilitated by the United States Agency for International Development (USAID) through two of its projects: Basic Support

for Institutionalizing Child Survival (or BASICS) and the Environmental Health Project (EHP).

The Initiative took place from 1996 to 1999. The facilitator, or “catalyst” (the two projects) contacted soap producers from five Central American countries—Guatemala, Costa Rica, El Salvador, Honduras, and Nicaragua. Four companies eventually launched handwashing promotion campaigns in 1998 in the first three countries. Ministries of health and education, media companies, UNICEF, nongovernmental organizations (NGOs), and foundations also joined the partnership. The campaign consisted of radio and television advertisements, posters and flyers distributed by sales personnel and through mobile units to communities; school, municipal, and health centre programs; distribution of soap samples; promotional events; and print advertisements. According to a follow-up assessment, ten percent of the women surveyed improved their handwashing behaviour. Based on observed relationships between handwashing behaviour and diarrhoea in these studies and supporting scientific literature, one can also estimate that over the course of the intervention there was an overall reduction in diarrheal prevalence of about 4.5 percent among children under five.

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## 4.5 PPP IN INDIA

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PPPs are a relatively new phenomenon in India but already more than Rs.1000 billion worth of PPP projects are currently under development across the country. Both central and state-level governments are hoping to build on this progress, both by scaling up the use of PPPs in sectors where progress has already been made and introducing it into sectors where few private projects have yet been realized. However, to achieve their ambitions for the use of PPPs in infrastructure projects, both national and state governments will need to provide for much higher visibility PPP programs and also seek to disseminate best practice, as both commercial and bureaucratic learning advances.

### **PPPs in Different States for Urban Development**

The PPPs represent a unique and flexible solution to implement infrastructure projects. They can embrace a range of structures and concepts which involve the sharing of risks and responsibilities between the public and private sectors. Some of these are well tried and tested conventional arrangements, while others require additional contractual agreements.

#### **1) PPP for Construction of Roads in Rajasthan**

Rajasthan has been in the forefront of successfully implementing a number of road sector projects in the recent past. Rajasthan was the first State to announce a State Road Policy in 1994 to facilitate the entry of private sector in the roads sector. A Model Concession Agreement was put in place for inviting private sector to develop roads on Build, Operate and Transfer (BOT) basis. The Rajasthan Road Development Act was enacted and launched in 2002 to encourage a greater level of participation of private sector in the development of the road sector. The Act provides formal framework to mainstream PPP modalities in the Roads sector. Under the State Road Development Fund Act, 2004 a non-lapsable State Road Fund (SRF) was created through levy of 50 paisa Cess on petrol / diesel. SRF is being leveraged to take up large / mega State Highways project.

A total of 56 road projects entailing investment of 852.84 crores have already been completed on BOT format of PPP, out of which 34 road projects entailing investment of 288.04 crores have already recovered investment, through toll, and transferred back to the Government. Other 22 road projects involving investment of 564.80 crores are being build/operated on BOT format of PPP.

Rajasthan Mega Highways Project for improvement and maintenance of 1053 km of road at an investment of 1500 crore has been completed through a joint venture company, RIDCOR.

## **2) PPP for Water Supply in Rajasthan**

Rajasthan, a water deficient province, has many water transmission and distribution projects which are pending resource allocation and subsequent implementation. In-principle, the State

Government is inclined to proceed with annuity-based and other appropriate PPP modalities in the water sector. Project development and structuring for a few water supply projects on PPP format have been initiated. These include two projects of water supply in Ajmer (1500 crore) and Udaipur ( 790 crore) towns, one project of Bisalpur-Tonk- Uniyara drinking water supply (385 crore) covering 2 towns and 436 villages of Tonk District, and two pilot projects for water supply in Jaipur (Mansarovar) (25 crore) and Kota (15 crore) with focus on reduction in non-revenue water and achieving 24 x 7 water supplies.

## **3) PPP for Education in Rajasthan**

The Government of Rajasthan intends to engage private sector participants to design, finance, establish, operate, manage and maintain 165 secondary schools (from 6th to 12th) for a period of 30 year 5 schools per districts are proposed to be built under the project. Phase-I of this project aims at procuring 50 schools in the Ajmer (4 districts) and Udaipur (6 districts) Divisions. The land for these PPP schools will be provided on a 30 year lease basis to the private sector partner After expiry of the concession period of 30 years, the assets of these schools will be transferred to the Government.

These PPP schools will be run by the private sector autonomously. The private partner(s) will bear the entire capital cost. Government will provide capital assistance at the rate of 500Rs. per sq ft of constructed area subject to maximum of 5.0 million Rs. to be paid depending upon the progress of construction and use of own funds by the private developer. The private partner will have full independence in operational matters such as teacher recruitment and running of schools. PPP schools will have to attain a high performance benchmark apart from seeking an affiliation with either the State Board or the CBSE.

## **4) PPP in providing radiology services in health care facilities across Bihar**

The lack of diagnostic facilities in rural hospitals was evident in Bihar. Apart from other support services, this partnership was intended to focus on providing better treatment. With this intention, the Government of Bihar entered into various public private partnerships in the health sector. The Government of Bihar contracted with private provider IGE Medical Systems (IGEMS) to provide radiology services in health care facilities across Bihar, from primary health centres to district hospitals.

Under this new policy, the services in Government hospitals are provided free to patients, but necessary infrastructure was lacking. To provide better radiology services in all health care facilities operated by State Health Societies in 38 districts, these services were contracted to private providers who would set up and operate the necessary infrastructure in the allotted space inside the health centre as per agreement, and would be paid charges as per rates fixed by State Health Society Bihar for the number of tests performed.

Expression of interest was invited from various private providers operating similar services and the providers were selected through a process of technical evaluation. The partnership was formalized through a signed Memorandum of Understanding (MoU) and rates were fixed at which the charges would be reimbursed. Initially, the charges were paid by users (patients). However, when the decision was taken to provide free treatment to all patients coming to government hospitals, the MoU was amended and the charges were being paid by the Government.

IGEMS developed an innovative business model of franchising where local entrepreneurs are encouraged to operate the radiology centers with technical support from IGEMS. This model creates rural employment apart from providing radiology services at economical costs. This high volume model helps in negotiating with vendors for best prices for raw materials thus achieving economies of scale and gaining nominal profits in spite of very low costs. Monitoring is done by district health society and payments are made from districts

##### **5) PPP for Delivery of Reproductive Child Health Services to the Slum Population of Guwahati City, Assam**

The urban health intervention in Guwahati, Assam, involves contracting a trust hospital - Marwari Maternity Hospital (MMH) to provide services in eight low-income municipal wards of the city, having a total population of 2 – 2.5 lakh. The state government pays the MMH for providing outreach and referral services, in the identified areas.

In addition, vaccines and contraceptives are provided free to MMH. MMH is covering 14 outreach sites in these areas. It is mainly providing RCH services but the outreach team includes a doctor and they can also treat simple ailments or refer patients to the hospital.

In the hospital, sterilisation, spacing and abortion services are provided free of cost to patients, while deliveries, operations and diagnostic tests are charged at concessionary rates.

The initial contract was for one year (2002-2003). Government of Assam reviewed the performance after one year and renewed the contract. To build up the referral system, the Government of Assam also proposed to upgrade three or 4 health posts/urban family welfare centres to secondary hospitals in the urban limits of Guwahati, within or near the slum areas.

The PPP initiative has had significant successes. Apart from direct provision of services, it has induced replication in the public sector. The secondary/ referral system is being strengthened with marginal investment since the staffs are already available. The MMH management has started a programme of RCH camps in peri-urban areas at their own cost. Other private and trust hospitals in the city are expressing interest in joining this initiative.

## 6) PPP for Improving Conditions of the Slums in Ahmedabad

Officially incepted in 1995, Ahmedabad's Slum Networking Program commenced as an adaptation of the DFID funded Indore Habitat Project. The program continues to exist as a partnership, though the nature of the partnership has evolved.

In 1995, approximately 3 million people dwelled in Ahmedabad, 40% of whom were considered slum dwellers. Himanshu Parikh, the sanitation infrastructure engineer of the Indore Habitat Project, garnered the support of Arvind Mills, emerging as a global corporation with headquarters in the city, and the Ahmedabad Municipal Corporation (AMC) to turn the venture into a citywide pilot project, beginning with the up gradation of 4 slums, 3,300 households, amounting to approximately 22,000 people. Three objectives emerged from the partnership 1) to improve the physical and non-physical infrastructure facilities within selected slum areas; 2) to facilitate the process of community development; and 3) to develop a city level organization for slum networking and infrastructure improvement. In addition to the physical upgrading components, which included the implementation of roads and pavers, storm water, waste water, individual water supply, individual toilets and landscaping, the project also included a social component, including the organization of community groups (for woman and children), educational activities for pre-school aged children, and developing linkages to the formal sector via vocational training and access to finance for starting up businesses. SAATH, an NGO that had been working with slums since 1989, developed a strategy with SHARDA Trust, the implementing agency chosen by Arvind for carrying out the social component of the program. Although AMC passed a resolution to formalize the project, the language was extremely vague and written in such a way that most of the burden was placed on Arvind Mills. Further, indicative of the organic nature of this network partnership, no contracts were written between actors.

To avoid the burden falling on any single entity, cost sharing of the pilot was split quite evenly between the public sector, AMC, 40%; the private sector, Arvind Mills, 27%; community members, 27%; and 4% from SAATH who assumed responsibility for the community development component of the program.

The project proved successful on several fronts: first, implementation of physical infrastructure (roads, sewage, storm drains, and water supply) occurred in a timely, cost-effective manner, and remained within the budget. Second, largely with the help of SAATH, community involvement occurred at every juncture of this process, from design to payment of contractors. The community even established a "community corpus" of Rs 100 per household fund to ensure maintenance of the infrastructure. Lastly, SHARDA Trust convinced SEWA bank to provide and underwrote all loans taken by project participants who did not possess upfront funds to ensure that the project would proceed for household financing reasons.

Where the project proved less successful was 1) bringing the project to scale – the impact of 181 households is much smaller than that of 3,300 households; 2) administrative delays due to miscommunication at AMC, resulting in a 450 day response time in some cases (and 3) community development, seemingly due to mismatched values and expectations between SHARDA Trust and SAATH. Whereas Improving Slum Conditions with Public Private Partnerships SHARDA Trust seemed to expect greater skills development training, SAATH focused the majority of community development efforts on public health.

These missed opportunities speak to the challenges faced in maintaining alliances. AMC did not feel it was treated as an equal partner, while SAATH felt that SHARDA Trust was unduly pressuring the organization to achieve results. While the organic nature of this partnership allowed for greater participation amongst various entities, namely the community members and NGOs, lack of clearly delineated roles prohibited more effective action to take place. That no legal agreement existed between the actors essentially ensured mismatched expectations. Clearly AMC’s resolution, which relegated the City to a facilitator role, was either mis-communicated or not fully embraced by the many bureaucracies within AMC.

After reading this section, you would have gained some idea about different models of PPP. Now you should be able to answer the questions given in *Check Your Progress 2*.

**Check Your Progress 2**

**Note:** a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit

1) What is Trunkey model of PPP.

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2) What are the different types of management contract?

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**4.6 LET US SUM UP**

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In this unit you have read about the concept of Public Private Partnership and its importance in urban development. It also throws light on the various types of Public Private Partnerships that are in vogue. To add to the understanding of the learner on PPP, the unit also brings to light a few case studies of PPPs in both national and international front.

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**4.7 REFERENCES AND SELECTED READINGS**

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UNHABITAT 2011, Public Private Partnership in Housing and Urban Development, The Global Urban Economic Dialogue Series, UN-HABITAT.

Moszoro M. and Magdalena Krzyzanowska 2011, Implementing Public Private Partnership in Municipalities, Working Paper, WP -908, IESE Business School, University of Navarra.

Qingshu X. and Roger Stough 2002, Public-Private Partnerships in Urban Economic Development and Prospects of Their Application in China, Presented at the International Conference on “Transitions in Public Administration and Governance”.

ULI 2011, Public Private Partnership in Sustainable Urban Development, Infoburst, Urban Investment Network.

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## 4.8 CHECK YOUR PROGRESS – POSSIBLE ANSWERS

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### Check Your Progress 1

- 1) Some of the objectives of PPPs are as follows:
  - 1) Improving access to essential services
  - 2) Improving quality of services available
  - 3) Exchange of expertise
  - 4) Mobilize additional resources for activities
  - 5) Improve efficiency
- 2) Public-private partnerships are designed so that risk is transferred between the public and private sectors, allocating particular project risk to the partner best able to manage that risk cost-effectively.

### Check Your Progress 2

- 1) Turnkey is a traditional public sector procurement model for infrastructure facilities. Generally, a private contractor is selected through a bidding process. The private contractor designs and builds a facility for a fixed fee, rate or total cost, which is one of the key criteria in selecting the winning bid. The contractor assumes risks involved in the design and construction phases. The scale of investment by the private sector is generally low and for a short-term. Typically, in this type of arrangement there is no strong incentive for early completion of a project. This type of private sector participation is also known as Design-Build.
- 2) There are several variants of the management contract including:
  - a) Supply or service contract
  - b) Maintenance management
  - c) Operational management