

# Chapter 154

## Public–Private Partnership: The New Phenomenon

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**Abstract** The ever increasing growth in urban population today has imposed tremendous pressure on State resources. In this situation, public–private partnership (PPP) can offer a solution to resource scarcity. It is defined as an arrangement between government and private sector bodies, for the purpose of providing public infrastructure and public services. Government and private sector bodies join hands to supply infrastructure and services to the members of the public. Such partnerships are believed to be characterized by the sharing of investment, risk, responsibility and reward between the partners. The underlying logic for establishing partnerships is that both the public and the private sectors have unique characteristics that provide them with advantages in specific aspects of service or project delivery.

**Keywords** Partnership · Public–private partnership · Political philosophy

The PPP strategy is evolving as a major plank for development efforts in many parts of the world today. In the 1980s, the term in vogue was privatisation. But the word gradually acquired a broader meaning, and by 1987, Savas defined privatisation as the act of reducing the role of government, or increasing the role of the private sector, in an activity or in the ownership of assets. Savas (1987) dealt with the contemporary American and European thrusts toward privatisation, but carefully admitted that, in a basic sense, public–private bonds were ancient and classical (Ibid., pp. 290–291).

Milton Friedman, Gordon Tullock, Anthony Downs, William Niskanen and Peter Drucker have been some of the more well-known scholars who popularised the concept of privatisation. But gradually, public–private partnerships became a

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more fashionable term and by 2000, the wide-ranging spectrum of public–private bonds constituted the central theme of the relevant discourse (Savas et al. 2000). It has been suggested that the word “privatisation” is now being consciously avoided, as it has been thoroughly discredited. Nice-sounding phases like PPPs are being used for covertly ensuring riskless profits by the private sector. It has been specifically alleged that the World Bank has been promoting the PPP model so that investment becomes the responsibility of the government, while management becomes the prerogative of the private companies (Bhaduri and Kejriwal 2005). Scholars have indicated that privatisation and PPPs often actually throw open the debate about the rights of communities against the rising demand from industry (Das and Pangare 2006).

### 154.1 Evolution

Public–Private Partnerships (PPPs) are fast evolving as the new ‘panacea’ for the Indian state. In the 1950s, the solution lay in growth. In the 1970s, anti-poverty programmes were the magic potions. In the 1990s, the buzzword was liberalisation. In the current decade, the answer appears to lie in the PPPs. Like all other concepts, the term PPP also has its coordinates in its immediate context. Classically and philosophically, it could be plausibly argued that all businesses of civil societies and states are functions of public–private partnerships. Social contract theories hinted at this possibility and the king of Locke was certainly a partner in an agreement. When Green suggested that will (and not force) was the basis of the state, he was merely confirming that the public body was a partnership business of the members of the public! But the current term PPP seldom explores these hidden depths. PPPs are defined, strictly and narrowly, as the arrangements between government and private sector entities for the purpose of providing public infrastructure, facilities and services. PPPs emerged in this manner from the womb of *privatization*. The word *privatize* first appeared in a dictionary in 1983 and dominated the discourses for years. But by 2000, public–private partnerships were sounding more fashionable (Savas 2000).

It has been suggested that well-packaged phrases like PPPs better ensure riskless profits by the private sector. It has been hinted that the World Bank has been promoting the PPP model so that investment becomes the responsibility of the government, while management becomes the prerogative of the private companies. But even without being driven by the World Bank, public systems may woo private investors for meeting infrastructure gaps and/or for improving the reach/quality of public services, without escalating financial deficits. By itself, that is not a bad goal.

What could probably be a more value-neutral proposal is that the underlying principle of all PPPs is de-bureaucratization, and it is here that the PPPs are intrinsically linked to the primary concept of privatization. Privatization carried a sense of abdication by the state. Public–private partnering is more honourable for

the state and certainly not undignified for the private side either. In this sense, it is definitely a nice-sounding phrase. But the problem is, the new phrase is yet to actually acquire new contours. The shadow of privatisation looms large on PPPs.

Scholars have indicated that sometimes private initiatives for entry into public spaces have been suspected to have assumed the character of para-statal elite clubs.<sup>1</sup> Several state governments passed laws to enable the private sector to participate in building infrastructure in late 1990s and early 2000s. Government of Gujarat passed the Gujarat Infrastructure Development Act in 1999. Government of Andhra Pradesh passed the Andhra Pradesh Infrastructure Development Enabling Act in 2001. In both the cases the Acts laid down the basis and conditions for private sector participation in infrastructure building. Emphasis was on roads, bridges, power and in some cases, services like water-supply.

In 2005, the Government of India introduced a Scheme for Support to Public Private Partnerships in Infrastructure. The scheme mentioned that the central purpose to evolve the PPP strategy is to attract private capital and the private sector's techno-managerial efficiencies towards the development of infrastructure. The scheme provides for viability gap funding.

In the last few years, many important projects in India have been implemented in the PPP mode. New airports have been constructed: for example, Hyderabad Rajiv Gandhi International Airport is a PPP project, constructed on BOT (Build-Operate-Transfer) basis (with 60 year's operation tenure) by a private company. The name of the private company is GMR—Hyderabad International Airport Limited. Many new road and flyovers have been constructed on a similar BOT basis. Delhi-Noida toll road, Mumbai-Pune toll express way and Chennai-Pondicherry toll road are some of the important examples.

Many civic services have also been subjected to PPPs. Chennai and Hyderabad as well as many other cities in India has experimented with PPPs in solid waste management sector. In Tamil Nadu PPP strategies have been used also for water supply and sewage treatment services.

PPPs have been used in many states in the housing sector and for redevelopment of slums and markets. The PPP experiments conducted in Mumbai in these sectors are particularly prominent. Brihanmumbai Mahanagarpalika or the Municipal Corporation of Greater Mumbai recently experimented with the redevelopment of the century old Crawford Market in the PPP mode.

PPPs have sometimes been attempted in the sector of governance reforms also. When S. M. Krishna was the Chief Minister of Karnataka, he allowed a private sector group to enter the domain of city administration for reforming the policies and practices of city governance. The name of this group was Bangalore Agenda Task Force. Many prominent citizens of Bangalore were members of this group. Nandan Nilekani, the then CEO of the famous IT Company Infosys Corporation, led the private citizens involved in BATF. These private citizens joined hands with

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<sup>1</sup> Planning Commission, *Faster, Sustainable and More Inclusive Growth: An Approach to the 12th Five Year Plan*, August 2011, pp. 143–151.

the municipal authorities for bringing funds to the city from private trusts as well as to reform the management practices of the city corporation. This private venture was not profit oriented. But a question arose whether they represented the majority of the population and the poor in particular. Some scholars specifically suggested that BATF represented the urban affluent middle classes only.

## 154.2 Debate in the Indian Cities

In case of the local governments in Indian cities, the debate has been particularly poignant. Indian cities are facing mounting pressure to meet the needs of the growing urban corporate sector and of the new middle classes. PPPs offer a ready model for private sector participation in infrastructure-building and urban governance at this juncture. But scholars and participants have questioned whether the existing PPP strategies take into account the needs and voices of the majority of the population. (Ghosh 2006). However, the national Planning Commission, even in its latest approach paper, upholds PPPs as a good plank for urban development (See Footnote 1).

PPPs indeed present a wide and broad framework. But within this framework, there can be several models, (like BOT (Build-Operate-Transfer), BOOT (Build-Own-Operate-Transfer), LBO (Lease-Build-Operate), etc. In different models, the tasks and the risks of government and private bodies are distributed in different ways. The basic purpose of all conventional PPP models is to achieve increased amount of resource mobilization for efficient execution of projects. Private sector participation could be attracted through leasing and annuity payments. The policy conceded that private sector participation could be achieved through joint sectors projects also. If required, specific concessions and subsidies could also be provided to the private investors in infrastructure development projects.

The policy insists that a private partner must be selected through a transparent process. It envisages invitation of bids—technical and financial/commercial—from among the pre-qualified firms for each project proposal. A committee of secretaries headed by the Chief Secretary reviews the PPP proposals, while the final approval to a PPP project is accorded by the Chief Minister/the Cabinet.

In the field, what was immediately apparent in the PPP initiatives of the early years of the new century was their larger size. KMDA in Kolkata in West Bengal entered into agreements with private partners for two townships, one at West Howrah, and the other at Dankuni. The West Howrah project (since described as the Kolkata West International City) was the first FDI (foreign direct investment) project in the housing sector in West Bengal, and this was also the first township in the State to be entirely handed over to a private entity on leasehold basis. The second satellite township at Dankuni is much larger than the West Howrah project in sheer size as well as in terms of other dimensions. A Delhi-based Indian giant has recently been selected through competitive bidding and the sum quoted by the

winner (Rs. 2,700 crore) for this 5,000-acre township has been seen as a staggering intervention by the private sector in the real estate business of the state.

The second interesting feature has been the qualitative up gradation of some old practices and concepts. An example could be indicative. KMDA had a truck terminal on the Kona Expressway, which was suffering from several operational inadequacies. The project has since been re-packaged as a logistic hub and has been subjected to a PPP exercise. A private consortium has been selected for operating the logistic hub. This has been an interesting PPP intervention in the infrastructure sector.<sup>2</sup>

However, little seems to be happening in core infrastructure sectors. The Government of India in the Ministry of Finance and the Department of Economic Affairs announced a scheme for support to PPPs in infrastructure in 2005.<sup>3</sup> The objective of the scheme is to provide financial support to bridge the viability gap of infrastructure projects undertaken through the PPP mode. The viability gap funding is available for roads and bridges, railways, seaports and airports, urban transport projects as well as civic service projects in water supply, sewerage and solid waste management projects etc. Until now, there is no news of any project proposal sent from Kolkata or West Bengal to Delhi for this viability grant to build infrastructure in PPP modes.

### 154.3 PPP Initiatives

PPP Projects Status Report As on July 31, 2011 states that development and use of PPPs for delivering infrastructure services has now at least 11 years of precedence in India, with the majority of projects coming in line in the last 5–7 years. Policies in favor of attracting private participation as well as innovation with different structures have met with varying degrees of success. Some sectors like telecommunications, power, and ports and roads, have done very good progress compared to limited success in other sectors. Some states have undertaken far more PPPs than others, and there has been a much heavier use of PPPs in some sectors. As far as current status of projects is concerned, as per our database, there have been 758 PPP projects in our main sectors of focus where a contract has been awarded and projects are underway—in the sense that they are either operational, have reached construction stage, or at least construction/implementation is imminent. The total project cost is estimated to be about Rs. 383,332.06 Crore.

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<sup>2</sup> Interview with Sri Kalyan Roy, Additional Director, Kolkata Metropolitan Development Authority, on 29 October, 2006.

<sup>3</sup> Government of India, Ministry of Finance, Department of Economic Affairs (Infrastructure Section), Scheme for Support to Public Private Partnerships in Infrastructure, New Delhi, July, 2005.

State	Total number of projects	Based on 100 crore	Between 100 and 250 crore	Between 251 and 500 crore	More than 500 crore	Value of contracts
<i>State wise figures as on 31st July 2011</i>						
Andhra Pradesh	96	1,484.6	2,197.8	7,062.3	56,173.7	66,918.3
Assam	4	54.0	337.2	–	–	391.2
Bihar	6	77.6	–	769.6	1,246.7	2,093.8
Chandigarh	2	75.0	–	–	–	75.0
Chattisgarh	4	70.0	304.0	464.0	–	838.0
Delhi	13	95.0	109.4	738.2	10,374.0	11,316.6
Goa	2	30.0	220.0	–	–	250.0
Gujarat	63	304.1	2,013.2	4,138.9	33,181.0	39,637.2
Haryana	10	125.0	180.0	270.0	10,588.1	11,163.1
Jammu and Kashmir	3	–	–	–	6,319.8	6,319.8
Jharkhand	9	131.0	550.0	398.0	625.1	1,704.1
Karnataka	104	1,080.4	1,942.6	13,136.3	28,499.6	44,658.9
Kerala	32	338.7	206.3	1,235.0	20,501.5	22,281.5
Madhya Pradesh	86	1,977.6	3,930.3	3,397.2	5,678.3	14,983.4
Maharashtra	78	742.3	2,988.4	2,433.7	39,427.6	45,592.0
Meghalaya	2	–	226.1	–	536.0	762.1
Orissa	27	235.1	211.0	1,473.0	11,430.6	13,349.7
Puducherry	2	–	–	419.0	2,947.8	3,366.8
Punjab	29	732.8	1,552.7	572.0	705.0	3,562.5
Rajasthan	59	633.9	783.8	1,100.8	12,508.8	15,027.3
Sikkim	24	175.6	558.0	2,669.0	13,708.0	17,110.6
Tamil Nadu	43	267.9	355.6	8,905.2	9,100.0	18,628.6
Uttar Pradesh	14	–	–	1,458.6	25,137.2	26,595.8
Uttarakhand	2	43.0	–	478.0	–	521.0
West Bengal	30	638.0	965.7	1,714.4	3,299.1	6,617.1
Inter State	14	160.5	195.0	2,474.4	6,738.0	9,567.8
<i>Total</i>	<i>758</i>	<i>9,471.9</i>	<i>19,826.9</i>	<i>55,307.5</i>	<i>298,725.8</i>	<i>383,332.1</i>
<i>Sectorwise figures as on 31st July, 2011</i>						
Airports	5	–	–	303.0	18,808.0	19,111.0
Education	17	424.2	365.5	460.0	600.0	1,849.7
Energy	56	337.6	934.0	3,083.0	62,890.0	67,244.6
Health Care	8	315.0	343.0	275.0	900.0	1,833.0
Ports	61	86.0	1,745.3	4,304.8	74,902.1	81,038.2
Railways	4	–	102.2	873.0	594.3	1,569.6
Roads	405	4,364.6	11,696.5	38,520.5	122,143.3	176,724.9
Tourism	50	1,132.6	1,503.5	800.0	1,050.0	4,486.1
Urban Development	152	2,812.0	3,136.9	6,688.2	16,838.0	29,475.0
<i>Total</i>	<i>758</i>	<i>9,471.9</i>	<i>19,826.9</i>	<i>55,307.5</i>	<i>298,725.8</i>	<i>383,332.1</i>

Source Public-private partnerships, India Database, Dept. of Economic Affairs, Ministry of Finance, Government of India

One-third of the municipal area in Chennai has been handed over to a private entity for conservancy activities (starting from house-to-house collection and ending at the disposal site), thereby limiting, in the process, the overhead costs of the city corporation. While the benefits of such contracting out of services may be arguable,<sup>4</sup> the spread of the PPP palate gets wider through such attempts. The Delhi-Noida-Delhi flyway and the Vadodara-Halol toll road in Gujarat have been seen as interesting examples of experiments with the BOOT strategy. The only case study of this type of PPP making significant progress is to be found at Tirupur in Tamil Nadu in the water sector. This type of contract is operational in a big way in the water sector in Manila, Philippines. As and when such fee-structure firmly evolves, private players may feel tempted to participate in these areas. Incidentally, the relations between user charges and PPPs constitute a central theme of the on-going urban reforms processes.

PPPs do need firm regulatory mechanisms, but the regulator will have to desist from being a partner, too. This precise segregation could well be the point of departure for tomorrow. While inaugurating a mega conference on 'building infrastructure' recently, the Prime Minister of India articulated the need for "an independent, transparent policy" with firm elements regarding regulation.

A fourth point emerges in the context of this need for regulations. It is widely acknowledged that an enabling, conducive and well-defined legal framework facilitates PPP initiatives in infrastructure. In India, Gujarat (1999) and Andhra Pradesh (2001) enacted such laws with the following underlying themes: (1) clear demarcation of roles and responsibilities of all stakeholders; (2) introduction of transparency, stability and predictability in the PPP process; and (3) outlining the various principles for infrastructure service delivery. In West Bengal, the State Government has published a policy, though it is yet to firm up a comprehensive legal framework for PPPs. But it has been rightly felt that preparation of PPP policy is not enough. It is learnt that the State functionaries consider a policy to be a creative and flexible platform to work upon, though the option of evolving a legislative framework is also under consideration.<sup>5</sup>

## 154.4 Issue of Political Philosophy

The discourses on privatisation and public-private partnerships have been dominated, since 1980s, by personalities like Margaret Thatcher, Ronald Reagan and Milton Friedman, and institutions like the World Bank and the Asian Development Bank. In India, the discussions gained momentum in the 1990s, when the Soviet

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<sup>4</sup> Interview with Sri M. P. Vijaya Kumar, IAS, Municipal Commissioner, Chennai Municipal Corporation on 4 October, 2006. The Commissioner, during the conversation, did not appear entirely convinced about the superior result of the PPP initiative.

<sup>5</sup> Interview with officials of the Urban Development Department, Government of West Bengal.

bloc had collapsed and when a particular variant of globalisation became the mainstay of a unipolar world. De-control, de-licensing, de-regulation, liberalisation and privatisation became virtually synonymous. The governments, both at the centre as well as at the states, were in the abdicating mood, while the private sectors were buoyant. Public-private partnerships implied exit of governments and the public sectors from (and the entry of the private corporate sector into) governance and infrastructure building. The word “private” became interchangeable with the “corporate”.

In the process, the private citizen went missing. The organised corporate firms swallowed the entire private world, with the solitary individuals swept out of existence. There were often attempts to organise the citizens' groups, as in the case of the Bangalore Agenda Task Force. But, on critical examination, it transpired that these groups often excluded the majority of the population, and emerged, instead, as virtually para-statal elite clubs. The virtual (or eventual) para-statal character of similar, subsequent initiatives (e.g., *Janaagraha* of Bangalore etc.) is demonstrated by their co-option in the Jawaharlal Nehru National Urban Renewal Mission of the Government of India. Arguably, these later initiatives are also characterised by their urban middle class character. The poor and the marginal private citizens find no room in the current deliberations on PPP strategies.

## 154.5 Conclusion

The discourses on PPPs have dominated the discussions in many disciplines in last two decades. Political Science, public administration, management sciences and economics have been some of the disciplines which have been most influenced by PPP discourses. In the domain of practice also, the emphasis is on building houses, markets and infrastructure, rather than on building relationships with all sections of citizens. The public policies and the dominant practices refer to partnerships between government and corporate enterprises, and seldom to partnerships between government and community based organizations. Discourses on PPPs are becoming elitist and market-centric. For some time now in India, it was thought that decentralization would be the cure for many of our ailments. The solution was projected to be omnibus and inclusionary, because it attempted to accommodate both efficiency and participation. The new panacea of PPPs emphasizes efficiency, but underlines participation only selectively, to the extent that the private companies are involved. Unfortunately, the people at large find no room in the doctrine of PPP, in the way the concept-credo is being defined now in India.



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