

Key policy elements of ppp frameworks in bangladesh essay sample

[Government](#)



1. Introduction

Given their very nature and application, the definition of a “ Public Private Partnership” (PPP) varies. Broadly, PPP’s are a contractual framework that enables government to work with the private sector to provide public services or infrastructure. This cooperation can be achieved at each or every stage along the life cycle of the project, including financing, construction and operation of the project. Although the private sector has been working with the public sector for many years, PPP’s represent a formalised framework that governments are increasingly applying to develop their relationships with the private sector.

The success of this practice is based on the premise that in many cases, the private sector is able provide a higher level of innovation, better access to finance and expertise in delivery of the service than government. If structured and managed correctly, over the life of the project, the PPP will provide value for money and cost the government less than if it had undertook the project itself. It will also allow the private sector to bear some of the financing and operating risk of the project (and earn a commercial return on this investment).

A Public Private Partnership should not be thought of as a “ privatisation” or quasi-privatisation. Privatisation, by definition, is the transfer of ownership of state assets to private hands. Notwithstanding any regulatory and legislative requirements, how that privatised entity is managed and operates is then outside the scope of any further government responsibility.

This is not the case with PPP's. While it can be said that the role of government changes, government still plays a major role. In all cases, it is responsible for a project's output specifications and in many cases, paying for the services produced by the private sector. Payment however, is based on delivery of the contracted service to the specified requirements. Ideally, a PPP allows a government to utilise the private sector to deliver public services or infrastructure that the government requires, in a manner that is more cost effective and innovative than a purely government approach.

1. 1 Typical PPP Frameworks

Public Private Partnerships and their structures depend on many varying factors, often individual to each situation. Table 1 provides a broad outline of typical PPP relationships.

Table. 1 Type of PPP's

PPP Contractual Relationship Description

Build and Transfer The government specifies the required outcomes and functionality, but is not necessarily prescriptive in how this is achieved. The private sector bears the risk and the asset is transferred to government to operate upon completion. **Operate and Maintain** An existing government asset is managed by the private sector. The contractor will be responsible for operating and maintaining the asset while providing the services to the customer. **Design Build Operate** A combination of the Design & Construction and Operate and Maintain. The Private contractor is also responsible for financing the projects construction. Upon completion and either before or

after commissioning, the government buys the asset. The management stays with the contractor but government retains ownership. Build Own Operate Transfer

The private partner is responsible for financing the entire lifecycle of the project (design, construction, operations and maintenance) and owns and operates the project through a concession period. In addition, the private partner bears all commercial risk. The asset is then turned over to the government at the end of an agreed term Build Own Operate. As above, except private partner retains ownership of asset. Government agrees only to purchase services for a fixed period. Lease Own Operate Private Partner leases an existing asset from the government for a specified time period. The asset may require refurbishment but no new assets are built. The private partner operates the asset throughout the life of the lease. Risk Sharing Alliance Government and the Private contractor share any potential risks or windfalls associated with project risk. Issues such as pricing, service delivery standards and costs are pre-determined between the government and the private partner.

Over time it has become increasingly clear that there are certain common factors for developing successful PPP's. While the concept of government working with the private sector is not new, the many challenges of developing and maintaining government-private sector relationships has led many governments to formalising the underlying policies and methodologies of PPP's. These policies and methodologies help provide:

oClear and transparent guidance to the private sector in building their relationship with government; oGuidelines on how the government works with the private sector; and oA level of standards at which the PPP will be carried out.

It is common for governments to involve the private sector on projects that are not necessarily defined as “ public services” but where the provision of a service is nevertheless deemed important for national or regional development. Many governments, in both developing and developed economies, engage the private sector to provide either key infrastructure or services.

Typical sectors where PPP’s have been applied include:

- oTelecommunications
- oTransport
- oRoads, Bridges and Railways
- oWater Supply, Sanitation and Development
- oWater Resources
- oCivil Aviation
- oPorts and Shipping
- oPower
- oOil & Gas
- oGovernment building accommodations
- oProvision of ancillary services to core government functions

Box 1. PPP’s: Not Just about Infrastructure

In many economies, the scope of PPP's has broadened. In addition to the provision of "traditional" projects such as infrastructure, countries such as the UK and Australia have used PPP's as a means of providing ancillary services, such as building and maintaining accommodation for court houses and hospitals and other municipal facilities. Within these PPP's however, government still delivers to the public those services which it deems as "core services".

In each of these cases, the government pays an agreed service fee to private operator to provide pre-determined level of service, quality and output, allowing the government to undertake its "core services" such as holding trials or providing public medical care. Any shortfall in these levels of output or service (for instance courtroom availability) can be penalised by an agreed amount.

Increased Sophistication

PPP's in these jurisdictions have witnessed new approaches to payment, where payments are based upon incentive mechanisms linked to outcomes from the PPP, rather than utilisation. For instance in the United Kingdom so called "shadow tolls" have been implemented where a private motorway owner is paid according to the number of cars who use that road and the congestion it alleviates on other roads. Rather than charging the user directly, payment is directly from the government. It also ensures that the private road owner retains the incentive to properly design and maintain the road as an effective alternative to other more congested roads.

Usefulness to growing economies

The concept of utilising PPP methodologies could potentially be a way that countries use to improve the delivery of public services. This would allow the government to concentrate on its “ core services” provision, while transferring the risk associated with management and operations of ancillary activities to the private sector. If structured correctly, the incentives provided to the private sector could lead to an overall improvement in public services in a country or region. On the payment side, in jurisdictions where private participation is still relatively new, or where political support for private sector involvement is still fragile, schemes such as shadow tolls or payment based on pre-determined service quality and levels can ensure that there is better value for money for government spending.

Case Studies

Case studies of two non-infrastructure PPP’s have been included following the appendices of this report which were compiled by the Victorian Auditor general. The first is a regional hospital in the Australian State of Victoria. The second is for the County Court in Melbourne, Australia. 1. 2 Dedicated PPP

Institutional and Policy Frameworks

One of the most common elements of all governments that have actively undertaken PPP’s is to establish a formal Partnerships framework to evaluate and facilitate projects.

Typically, while it is the Line Ministry that initiates PPP’s, many countries have established dedicated centre or department that can facilitate and

<https://assignbuster.com/key-policy-elements-of-ppp-frameworks-in-bangladesh-essay-sample/>

provide assistance on PPP's development. Throughout the region, a number of PPP centres exist. These include:

- oBangladesh Infrastructure Investment Centre;
 - oPhilippines BOT Centre
 - oPICKO – Established at Korea Research Institute for Human Settlements
- Outlines of these programmes are available in Appendices 1, 2 and 3.

Where there is no dedicated centre, a dedicated policy framework and methodology is established has been established for PPP's. In this case, the relevant line Ministry initiates and develops the project, in co-operation with the Finance Ministry, which must ensure fiscal compatibility with the government's budgetary goals.

Within the region, perhaps the most developed and comprehensive PPP framework is the "Partnerships Victoria" policy in the Australian state of Victoria. In this case, the Victorian government applies and develops its PPP projects within a clearly defined policy framework and methodology.

Broad guidelines in Victoria (as well as other Australian states) require potential PPP projects to be tested extensively against the following points:

- oBe in the public interest;
- oHave the private parties proposed cost structure compared against a Public Sector Comparator (PSC) (i. e. a model of the net costs of the proposal under a traditional Government-financed method of delivery); and

oAchieve an optimal allocation of risk between the public and private sectors (rather than a ‘ maximum’ transfer of risk to the private sector).

It is worth noting at this point that it is not a prerequisite to have a dedicated department or institution for successful PPP’s to be achieved. While many countries have nonetheless established dedicated institutions, it is clear that the essential factor is to have a robust PPP methodology established which then can be effectively utilised by all practitioners.