Central Public-Private Partnership (PPP) Development Facility for Enhancing Government Obligation and Efficiency in PPP Project

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ABSTRACT

The implications of public-private partnership (PPP) concept has gained utmost attention from different governments around the world because of the opportunities inherent in it in terms of overcoming budgetary constraints, improved service quality, enhanced efficiencies in procurement and risk management, and prospects of generating managerial and technical capabilities. The government obligations in PPP projects are often limited to feasibility study, transaction support and implementing linked government or public sector projects which subsequently raise the question regarding how the required funds should be mobilized by the government for these services as upfront development cost. Generally, any government agency driving a PPP project has to secure budgetary allocation from the central authority for performing the government-side obligations, which is often a complicated and time consuming process due to other priorities of the central treasury. To overcome this challenge, establishment of a central PPP development facility by the government is required. The ability to create and manage such a facility within the government mechanism will ensure seamless development and implementation of PPP projects by different government agencies and will contribute to foster a good relationship between the government and the private sector investors.

KEYWORDS
Infrastructure Project, PPP Project, Project Development Fund (PDF), Project Financing, Project Management, Public-Private Partnership (PPP)

INTRODUCTION

A public project is generally financed, owned and operated by government authorities or utility companies. However, in a private infrastructure project or in a public-private partnership (PPP) project, the development, financing, procurement, construction and operation of the project are carried out through a private investor under different schemes such as build-operate-transfer (BOT), build-own-operate (BOO), build-own-operate-transfer (BOOT) etc. In reality, a PPP project is not only a project, but also a business for a long period of time to be carried out by a private investor.
through partnerships between government and a private firm to provide services formerly supplied by the government alone (UNESCAP, 2005).

Considering the fundamental that investment is meant to come from the private sector in most common PPP projects (though there are some PPP schemes that may not require private sector investment), some upfront activities are required from the part of the government to attract potential investors (Rashed, 2011). Prior to embarking on a PPP project, the government studies the feasibility and benefits of the project, mainly in the areas of serving the interest of the country and the relevant sector with the objective to ensure sustainable and quality services to people (Alam, 2010; Hatefi & Seyedhoseini, 2012). The government considers economic, technical and some commercial factors in its feasibility study for a comparative assessment of the project proposals (UNESCAP, 2005) and in order to decide the level of regulations to be framed on the business. Both the government and the private investor have some obligations in a PPP project, so the government devises the terms and conditions of the business which is reflected in the contract document, which eventually is used to specify the rights and obligations of the private investor as well as the government (World Bank & Inter-American Development Bank, 1998). The ultimate success of a PPP project depends on the government’s obligation to follow-up and on the recommendations of advisors based on the feasibility, design, and manages of the final PPP contract (PPIAF, 2003). Nevertheless, availability of sufficient funds for the government or the specific government body propels fast-track implementation of a PPP project, because it helps to reduce bureaucracy, thus reduces process related lead time.

If these pre-implementation conditions are ensured by the government prior to inviting private investors, it is expected to generate a level of confidence among the potential investors, resulting in quality infrastructure services to the country people. Fulfillment of these pre-implementation conditions is necessary for two purposes – (i) for advisory services that may be needed by line ministries, executing agencies and other government bodies for developing infrastructure projects; and (ii) for implementation of the linked government sector projects which are predecessors for implementing any PPP project. The objective of this paper is to propose a structure of a central advisory facility.

NECESSITY OF THE PROJECT DEVELOPMENT FACILITY

A PPP project is generally different from a conventional public sector project because unlike short-term construction projects, it is a business contract for a lengthy period of time. Depending on the complexity of the clauses of the contract, a PPP project might entice the private investors or drive them away. As a result, the government agency dealing with a potential PPP project has to make an erudite estimate of the feasibility and viability of the project in its very early stage. However, in reality many of the government bodies may not possess the business skills and mindsets that are needed to identify and structure PPP investment propositions such as front-end development of a PPP project. Despite these limitations, essentially the PPP project identification and structuring should be driven by the government (UNESCAP, 2008). Though private investors can identify some potential PPP projects and provide unsolicited proposals to the government, it is the role of the government to determine the feasibility and necessity of such project within its sector-wise plans and may need to go for a competitive process to award the projects. In case of unsolicited PPP project proposals, the proposing firm may enjoy some competitive advantages over others in terms of preferential treatment in pre-qualification status or through some other incentives, but generally every PPP proposal is subject to awarding through competitive tendering process. Generally, the obligations of the government for a PPP project can be categorized as follows.
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