GPP Aimen

"In developing countries with weak governance and accountability mechanisms, there is no Such thing as "Public-Private" Partnership, but in reality only "Private-Private" partnership" Discuss. (2022)

Introduction:

Public private partnership refers to the collaboration between a government agency and a private Sector company that can be used to finance, build, and operation projects such as public transportation networks, parks, and convention centers.

Weak governance and accountability mechanisms can negatively impact public private partnership by creating an environment where corruption, mismanagement, and lack of transparency are more likely to occur. Developing countries often lack the institutional capacity and regulatory framework necessary to promote transperancy, fairness, and efficency in the delievery of public services. This can erode trust between the public and private sectors, and lead to "private - private" partnership

PPPs have become a praised mechanism for infrastructure development in developed countries, their application in developing countries faces a myriad of challenges due to pre-existing institutional weaknesses. According to **World Bank report** developing countries that experience governance shortcomings, the ability of the partnership to produce desired outcomes is put at risk.

Private partnership viewed as inappropriate for developing countries because of weak technical capacities and imperfect information, inability or unwillingness to pay the cost-covering traiffs, higher subsides, high capital cost. The risks in developing countries low and uncertain revenues, cherry picking favoring lucrative sectors, and misdirected regulatory capacities. Furthermore, high contracting costs due to opportunism, high constuction complexity, high revenue uncertainty and poor contract management can lead to failure in PPP projects in developing countries. **41.8%** of transportation PPP projects between **1991 to**

2015 in low and middle income countries in Asia failed for similar reasons.

Factors: Failure of Public Private Partnership:

- **Weak governance and accountability mechanisms:**

  Public private partnerships require strong governance and accountability mechanisms to ensure that the project is managed effectively, transperantly, and in the public interest. Weak governance and accountability mechanisms can create an environment where corruption, mismanagement and lack of transperancy are more likely to occur, which can undermine the effectiveness and sustainability of public private partnership.

- **Inadequate risk management:**

  Public private partnerships involve a significant amount of risk, including financial, political, legal, and operational risks. if risks are not managed effectively, it can lead to project failures and other negative outcomes. Effective risk management requires a comprehensive approach that involves identifying, assessing and mitigating risks throughout the project lifecycle.

- **Lack of Stakeholder engagement:**

  Public private partnerships involve a range of stakeholders, including the public sector, private sector, and civil society. Effective stakeholder engagement is critical to building trust, managing expectations, and ensuring that the project meets the needs of all stakeholders, if stakeholders are not engaged effectively it can lead to misunderstandings, conflicts, and other challenges.

- **Insufficient funding:**

  Public private partnerships require significant financial resources to be successful if funding is insufficient, it can lead to delays, cost overruns, and other problems. Effective financing strategies require a comprehensive approach that involves identifying and securing funding from a range of sources, including public and private investors.

- **Legal and regulatory challenges:**

Public private partnerships operate within a complex legal and regulatory environment and if legal and regulatory challenges are not addressed effectively, it can lead to project failures and other negative outcomes. Effective legal and regulatory strategies require a comprehensive approach that involves identifying and addressing legal and regulatory risks throughout the project lifecycle.

Examples:

- **Delhi Metro / Airport Metro Expressline India: (The Economic Times report - 2013)**

The Delhi airport metro express line a PPP project between the Delhi Metro Rail corporation (DMRC) and Reliance infrastructure, faced operational and financial difficulties. The project, which aimed to provide a direct metro link to Delhi's airport experienced significant technical and safety issues leading to the suspension of operations within a year of its opening. Dispute over revenues sharing and financial viability ultimately led to the termination of the concession agreement.

- ## Hambantota port - Srilanka:

(The Newyork times report 2017)

The Hambantota port in Srilanka faced financial and operational challenges. The Srilankan government entered into a 99-year lease agreement with a chinese state owned company, China Merchants port Holdings, to develop and operate the port. However, the project faced difficulties in generating Sufficent revenue to cover the debt incurred during its construction.

Factors : Public Private Partnership to Private - Private Partnership.

- ## Maturing Markets:

As markets in developing countries evolve and mature, private companies may find it more attractive to directly engage with other private entities rather than relying on government involvement through a PPP. his shift often occurs when the markets become more stable, transparent, and conducive to private sector investments.

- **Risk Sharing and Diversification:**

Private - private partnership allows companies to share risks and diversfy their business portfolios. By pooling resources or collaborating on specific projects, companies can reduce individual risk exposure and spread uncertainties across multiple partners. This risk sharing can enable companies to explore new opportunities or tackle amibitious projects that would be challenging to undertake alone.

- **Cost Efficiencies:**

Private- private partnership can enable companies to achieve cost efficiencies through shared resources, economies of scale, or joint procurement. By collaborating, companies can pool their purchasing power, negotiate better deals with suppliers, or share infrastructure resulting in reduced costs, streamlined operation and improved profitability for all involved parties.

- **Competitive Advantage:**

  Private- private partnership can enhance the competitive advantage of participating companies. By collaborating with other private entities, companies can access exclusive technologies, specialised knowledge, or niche markets, giving them a competitive edge in their respective industries. These partnerships allow companies to leverage their collective strengths and differentiate themselves from competitors.

- **Flexibility and Agility:**

  Private companies value flexibility and agility in their operations. PVPs offer a more flexible and adaptable partnership Structure compared to traditional public private partnerships, allowing companies to adjust strategies, respond quickly to market changes, and pursue opportunities that align with their business objectives and timeliness. PVPs provide greater autonomy and control over decision making processes.

- **Market Access and Expansion:**

PvPs can provide private companies with opportunities to access new markets or expand their existing market presence. By partnering with other private entities, companies can leverage their partner's distribution networks, customer base, or market knowledge to penetrate new markets, reach a larger audience, ~~or~~

Factors: "The Globalization Paradox"

- **Political Interference:** (Dani Rodrick)

Developing countries may experience political instability or interferance, which can disrupt PPPs. changes in government priorities, policies, or leadership can lead to uncertainties and potential disruptions in ongoing PPP projects. Private companies may choose to form a PvPs as a way to mitigate political risks and maintain control over their operations.

- **Bureaucratic Hurdles:**

Weak governance systems in developing countries are often characterized by bureacratic hurdles, cumbersome approval processes, and delays in decision making. These challenges can impede the progress of PPP projects, causing frustration and potential financial losses for private companies. In response, private entities may opt for PVPs, allowing them to bypass bureaucratic obstacles and expedite project implementation.

- **Limited Government Capacity:**

    Developing companies often face challenges related to limited institutional capacity and resources. Weak governance and accountability mechanisms can exacerbate these challenges, leading to inefficiencies in public sector project management and implementation. private companies may percieve a lack of government capacity as a hindrance to the success of PPPs prompting them to form PVPs where they can exercise greater control and ensure efficient project execution.

- **Lack of Enforcement and Redress Mechanisms:**

    Weak governance often results in

inadequate enforcement of contracts and limited access to redress mechanisms in case of disputes. Private companies may be reluctant to engage in PPPs if they percieve a lack of legal protection and remedies in case of contract breaches or conflicts. By forming PvPs, companies can establish contractual agreements that they have more confidence in enforcing and resolving any disputes that may arise.

Critical Analysis:

Weak governance and accountability mechanism in developing countries can significantly undermine public-private partnership and pave the way for the rise of private private partnerships. **Dani Rodrik's** book **"The Globalization Paradox"** argues that weak governance, particularly in developing countries, often results in corruption, lack of transperancy and bureaucratic hurdles that hinder the effectiveness of Public private partnership. One illustrative example is the case of **"Golden Quadrilateral"** highway project in **India**. Despite being implemented as a public private partnership, the project faced delays, costs overruns, and allegations of corruption due to weak governance and accountability. In "**Corruption in International Business**" by **Paul & kevin** highlight how weak governance and lack of transperancy in Public private partnership can foster a culture of corruption such as bribery and embezzlement. These corrupt practices not only undermine the effectiveness of PPPs but also erode public trust and discourage private companies from engaging in such partnership. As a result private companies may prefer to form public public partnership, as depicted in the book "**Private - Private Partnership in infrastructure**" by **yescombe & Farquharson** to mitigate risks associated with corruption, bureaucratic inefficencies and lack of transperancy.