

**Urban Governance and Development Management (UGDM)**  
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**Lecture – 30**  
**PPP in Urban Governance**

Welcome to lecture 30, in this lecture we will discuss the public private partnership, its concept and its various aspects. In this week, we have been discussing various methods of augmenting revenue in municipalities to develop or to develop various projects to execute the projects; out of that we have seen that the revenue sources in the municipality are limited, even though it is not very less.

But at the same time, it is limited and therefore to augment the revenues or to augment the financial resources from various other aspect, the private financial sources is very much important and from that idea, the concept of PPP emerged after the 90's when the liberal policies came in India. So, now we will see the basic concept of the PPP and how it can help you in urban governance.

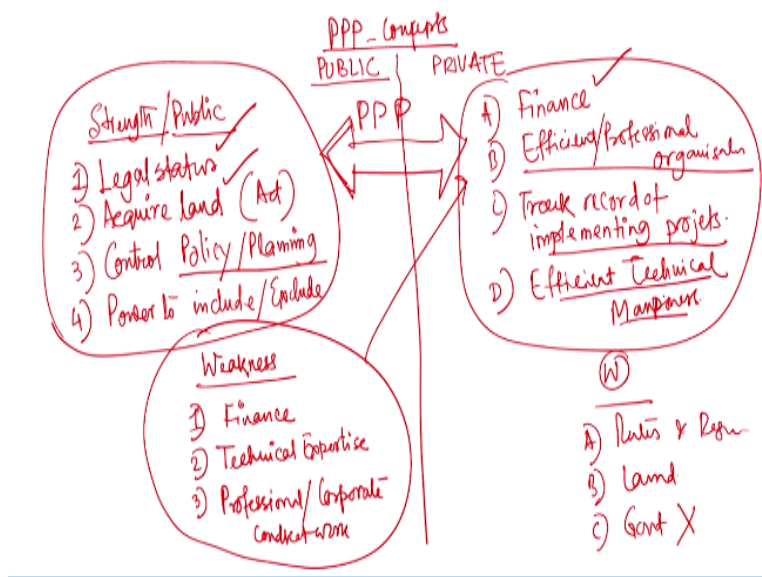
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- ❖ Concept of PPP ✓
- ❖ PPP Options ✓
- ❖ Legal status ✓
- ❖ Examples ✓

So, in this discussion, in this lecture we will discuss basically, the concept of the PPP, what are the PPP options we have and the legal status? and if possible, we will discuss some of the examples. So, before I come to the option, let me discuss the how PPP operates.

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So, since the world is having the public and private, if I ask you that what is the strength of a public organisation, they definitely you must be saying that a public organisations definitely have the legal status which is a strength of a public organisation, any municipalities or any government they are legally accepted as a government and a part of government, so that they can make their own rules and regulation which is not possible by the private developer or private organisations.

So that is the most important strength of the legal status, second is that the public organisation can acquire land using the Act, third is that they can control the policy and planning and fourth, they have the power to include or exclude in the public service delivery and what is a weakness? You know the public organisation, they are very poor in the finance, second is they are very much poor in technical expertise.

I mean to say that may be they have technical organisations but in some of the cases, the private organisation they have much more technical expertise than the private organisation and also they have; their weakness is professional or corporate conduct of work whereas, if you see the what are the advantage of the or the strength of the private organisation, definitely they have the finance, they have the efficient and professional organisations.

And they have a track record of implementing projects and they have an efficient technical manpower, so you can definitely their weakness will be they cannot make the public rules and regulations, they do not have land in most of the cases, large land and they are not a government, so you can see the weakness of the public organisations are basically, the strength of the private organisations.

Now, the question is; if I want to merge the strength of the public organisation and strength of a private organisation and make and work on that that is; that will be termed as a PP and P public private partnership, however the public authority can provide the land, they can provide the legal sanctity of the project, they can do the appropriate policy and planning and they can include the private sector.

Whereas, private sector can help by giving finance, by giving efficient professional organisational, track record for implementing the project because they have the technical manpower, so this is the concept of the PPP, how a PPP works, so PPP works on the strength, it takes strength of the public organisation and the private organisation. Now, let us see that what are the PPP options are there in urban local bodies or in public sector development.

Before I show the options, let me just tell you that there is a misconception between the PPP and typical projects, when a public organisations deliver or develop a project definitely, they hired some contractor or some other organisations to deliver that project that cannot be termed as a PPP, simply because that project is basically only done by the public organisations and that is given for a particular job just to construct the project and deliver the project.

So, a normal contract or normal construction project or normal project cannot be term at PPP project, a PPP project is that where the public and private, they will work on strength and there will be some amount of sharing either in the asset or in the investment or in the profit sharing or in the whatever is the project life cycle, they will share some of the element, so let us see what are the options.

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**PPP options**

Option	Asset Ownership	Operation & maintenance	Capital investment	Commercial risk
<b>A</b> Service contract	Public	Public and/or private	Public	Public
<b>B</b> Management contract	Public	Private	Public	Public
<b>C</b> Lease	Public	Private	Public & Private	Shared
<b>D</b> Concession	Public	Private	Private	Private
<b>E</b> JV	Joint Sector Company	Private Partner in the JV Company	Joint Sector Company	Shared between Public & Private
<b>F</b> BOT, etc	Private and Public	Private	Private	Private
<b>G</b> Divestiture	Private or private and public	Private	Private	Private

*Handwritten notes: 'PUBLIC' is written vertically next to the first column. 'PRIVATE' is written vertically next to the last column. Red circles highlight the 'Operation & maintenance' and 'Commercial risk' columns for most options.*

So, we have several options, some of the options I have shown, the option A is service contract, option B is management contract, option C is lease, option D is concession, E is joint venture and then BOT and those kind of options and then divestiture, so let me explain one by one. In service contract basically, a service is given to a private organisation, so private organisation they operate the service.

In management contract, it is only the private sector who operates and maintain the whole service and overall management in service contract, it can be public and or private, whereas the asset and capital and commercial, these all are taken by the public organisation as you can see, in the lease project, the public, the asset and the capital are shared by the public whereas, the operation maintenance is taken by the private and it is shared based on their contracted percentage.

In the concession projects, the private sector they take the commercial risk, the capital investment, the operation maintenance, whereas the public organisation, they only own the asset. In joint venture project, new companies made by the public sector and the private sector and joint sector company hold the asset, they do the project, they do the capital investment and they share the commercial risk.

So, here the commercial risk is shared between the public and the private, I would like to mention at this point that you might have seen that in housing sector, in last 10, 20 years, there are several projects done by the joint sector companies and this joint sector companies are termed as very much successful in bringing mix community housing by using the shared risk of the public and the private.

Now, then there are build operate and transfer mechanism, in build operate and transfer mechanism, it is the share of the private and public for the asset ownership, the private they do the operation and maintenance and the capital investment and the commercial risk is fully own by private, so and the divestiture; in the divestiture, the public organisation, they give the particular service or the project to the private, so it is kind of privatisation; fully privatisation where mostly it is done by the private, so from the top to bottom, from A to G, the more you go downwards, the involvement of the private will be more.

And from the top, the involvement of the public will be more, so that is the overall scenario or overall options what we have now, in build operate and transfer; this is a very popular mechanism under public private partnership. So, let us see the various options under the build operate and transfer mechanism.

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### PPP options.....Build and operate domain

- Build - Operate - Transfer (BOT)
- Build - Own - Operate and Transfer (BOOT)
- Build - Own - Operate (BOO)
- Build - Own - Operate - Sell (BOOS)
- Build-Transfer-Operate (BTO)
- Design-Built-Operate-Transfer(DBOT)
- Design-Build-Finance-Operate (DBFO)

VARIETY

The first is the build operate and transfer where a public private sector is given a project, they build, they operate and after certain period of time, they transfer for example, you might have seen that in toll plaza's, the private sectors are given the authority to collect the toll and after sometime, they transfer the whole project to the government. Then second is the build, operate own and transfer.

So, in build, operate and transfer, they may not own, if they own the property and then operate and transfer that is called BOOT and then build operate and own, in this case they do not transfer the property, they build on their own, they own it and they operate, so in this case government only gives the approval or gives the permit to build, operate and own, government do not share, the lease do not expect the return from the project.

They just gives the permission and the approvals, then this next is the build, own operate and sell, so this is a very another important methodology where a private sector is given approval or the permit to build some kind of infrastructure or service, own it, operate it and then they can sell it for example, government can allocate some of the dedicated land and give to private developer under some terms and condition.

And the sharing of the build units, so that they can build, they can operate and they can sell some of the units to the market on some terms and condition, so that is called BOOS, then build transfer and then operate, you give the project to the private developer or the private organisation, they build it on their own money, own finance, they transfer the ownership to the government and then they are given the permission to operate.

So, it is just reverse of BOT, build, transfer and operate that is BTO, then design, build, operate and transfer, in short it is DBOT, here the design is also done by the private sector and design, build, finance and operate DBFO, here also design is done by the private sector, whereas in the earlier cases, the major design, the gross design or the planning parameters are given by the public agency.

The job of the private organisations are to build those infrastructure, operate and transfer or own and transfer or sell and transfer or transfer and then own something like that so, these are the variety of the PPP options under BOT format. Now, mostly I would like to say that that these are; these kinds of BOT options are applicable for infrastructure project like water supply, like road and housing projects, mix housing projects and so on.

So, in your state if there must be some PPP guidelines and policy and some projects, so you can look into it and see, what are the projects they have done.

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## Critical factors in PPP

- A) Well documented terms and Conditions
- B) Selection of Private Party
- C) Negotiation
- D) Monitoring and Surveillance
- E) Transparency

Now, let us see that what are the critical factors in PPP now, as a concept PPP is fantastic because it takes the advantage of the public and advantage of the private sector, the strength of the both the partners but there are some critical factors because we have seen that without addressing those critical factor, a PPP policy can fail also, so let us see the critical factor. So, first of the critical factor is a well-documented terms and conditions.

If it is not well-documented in any future conflicts or differences, there could be cases of arbitration and court cases so, a well-documented terms and conditions will help you to eliminate or mitigate to avoid all those kind of situations. Then selection of a private party, I tell you how it is important, any PPP projects gets much more mileage or gets much more brand value than any private projects.

Simply because the government is involved in PPP projects so, every private developer or private organiser; organisation, they try to make PPP project with government because definitely there are; enhancement of the brand not only the brand, they get more profit out of the project and also same time, the government also get some amount of social benefit and financial benefit also but since it is a profitable and it is a very lucrative and it is a very interesting phenomenon or the offer for the private organisation, there is a competition.

And there are efforts and attempts to grab this opportunity from the government and so therefore, you have to ensure that the PPP opportunity is given to the right kind of the private organisation, so you have to see some salient important features for the selection of the private party, their past credential, their expertise whether they at all they can participate and contribute in that sector or not and also you have to see that whether the financial position is sound enough or not.

Whether they can provide adequate amount of finance for that particular project or not, so there are listed criteria's under the policies and the guidelines, so you can have a look and then select accordingly about the; of the private party then negotiation; negotiation is important in dealing with the private party because negotiation, the objective of the negotiation is that both the party will have a win-win situation and both of them will get benefit from the project.

So, a person in the public organisation, they should be very much expert or very much efficient in having an effective negotiation with the private party then, monitoring and surveillance, this is important because suppose, a PPP contract is signed during a political tenure of 5 years and after some time when the political party changes or the regime changes, there could be negligence of the work even within the regime, there could be negligence.

So, as a public partner you have to have a monitoring, have a surveillance of the actual implementation of the project, so that the project can reach the target and give the benefit to the people and then transparency; all the process of the PPP should be transparent and has to be documented in public media or the public domain like your websites, so that people can come to know that what are the benefits they are going to get through this PPP project.



What are the time frame, what are the financing sources, what public developer or public partner is doing, what private developer or the private partner is doing, those kind of information should be there in the public domain, so these are the critical factors in PPP, there are many factors, I am just showing some of the factors which is critical for a successful PPP.

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## MOHUA PPP policy in Affordable Housing

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1. DBT Model:
2. Mixed Development Cross –subsidized Housing :
3. Annuity Based Subsidized Housing:
4. Annuity-cum-Capital Grant Based Affordable Housing:.
5. Direct Relationship Ownership Housing:
6. Direct Relationship Rental Housing:

So, if you do a PPP project in your state or in your organisation, please see this PPP's, now I would like to show some of the examples from the PPP policies, this is a PPP policy from the affordable housing by government of India, it is done by Ministry of Housing and Urban affairs by government of India, so they are basically prescribing 6 categories of the PPP options, one is DBT model that is design, build and transfer model.

Then mixed development of cross subsidised housing through joint venture and all those mechanism, annuity based subsidised housing, here a private developer is given permission to develop a housing and allot the houses to the beneficiaries and so that beneficiary can give some amount of money at the end of the year, every year and after some time, they own the housing, so instead of purchasing a house by giving full amount, they are purchasing the house by giving annuity every year.

Then annuity cum capital grant based affordable housing here, some capital grant is given by the government and some amount of the remaining portion is given by the owner in terms of the annuity, then direct relationship with the ownership housing, in ownership housing there could be a direct relationship like government and private owner and the private partner and the owner of the housing.

The direct relationship with the rental housing, how this PPP option can help the rental housing, a private developer can be given permission to develop rental housing and they can develop the rental housing and a person can take that house as a rent and through the giving of the rent, he can get some kind of ownership after sometime, in all those categories government will provide the land in terms of a competitive mechanism to the private sector.

And one of the criteria of allotting those lands and a selection of the private sector will be the least cost whoever offers and whoever provides the least cost of the units in terms of the construction cost definitely, they will be given the advantage of this PPP by the government of India.

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### Govt of Haryana PPP policy-identified sectors

- Healthcare Facilities ✓
- Education ✓
- Tourism & related projects ✓
- Urban Infrastructure ✓
- Power ✓
- Highways ✓
- Agriculture related projects ✓
- Road ✓
- Civil Aviation ✓
- Industrial Infrastructure ✓
- Sports ✓
- Rural - Public conveniences
- E-governance

Similarly, various state governments they have done the PPP policies, I would like to show one example from government of Haryana, they were identified various aspects for the development under the PPP more, here are the aspects. Now, they have identified healthcare facilities,

education, tourism, urban infrastructure, power, highways, agriculture related projects, road other than the highways, civil aviation, industrial infrastructure, sports and related infrastructure, rural infrastructure like public conveniences and E- governance.

Now, from this list you can see that almost all sectors excluding some others, some basic social service or social security kind of thing mostly, all sectors where a significant capital investment is required those are identified under the PPP policy of government of Haryana.

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### Govt of Haryana PPP policy- salient features

- State support ✓
- Infrastructure fund ✓
- Management ✓ Mechanism
- Identification criteria - Private partner
- Institutional framework

And not only that in the PPP policy of the Haryana, they have mention, what kind of state support will be there, the infrastructure, there is a provision for the infrastructure fund which will work as a partnership then, management styles or management mechanism that is also mentioned in the PPP document then, identification criteria of the private partner, then institutional framework, what kind of individual framework will be there to make the PPP work.

So, this kind of examples of PPP policy and some of the projects are there, you can browse through the Internet and the other sources and get a full idea of the PPP and how it works definitely, some of the reference material we will be sharing with you. With this lecture, we; with we conclude the lecture of related to the financing and the accounts of the municipalities in the; so with this I would like to have a quick summary of the week whatever these lecture we had.

In the beginning, we started the discussion of the financial structure of the municipality, we have shown various financial sources of the municipality and how a finance and accounts works in the municipality then, we discussed in the; how the financial, the accounting systems are there, what are the changes in the accounting system and the advantage of the account; the change of the accounting system for single entry to double entry and as a reform, how much it was successful in municipality.

Then, you have seen the augmenting the revenue sources from various kinds of tax, user charges, the advertisement all those kind of innovative and alternative options are there in municipality from here, a municipality can apply their mind and then get some amount of revenue sources and then today, we have discussed the options in the public private partnership here, we have discussed the basic concept in PPP mode.

Basically, the advantage and the strength of the public organisation and the advantage of the private organisations are clubbed together and work together and in this mode, there are various options what is available for example, build operate transfer, joint venture mechanism, there can be divestiture, there could be concession, there could be some amount of management contract, all those kind of styles are there under design build and design operate and; the build operate and transfer mechanism we have seen.

There are various sub options like BOT, BOOT, BOOS, DOFT, all this kind of options are there, so go through all these options and then finally, we have seen that government has already framed the policies for the PPP, several projects are already executed by the departments and the organisations, so go through all these avenues and please have a look of the financial plan of your organisation, what kind of financial plan they have.

What are the sources, whether it is efficient enough to augment the revenues, whether it is efficient enough to augment the revenues or the finance from the private sector or not, so this kind of questions you should be able to answer, you should be able to think about and you should be able to act in future, if you have gone through all these lectures.

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Next LECTURE

## 31. Housing Strategy for Cities <sup>0</sup>

So, with this I would like to conclude today's lecture's next day I would like to discuss the some of the element on the physical development or the build development like housing, environment, transportation etc., so next day we will discuss the housing strategy for a city, thank you very much.