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Opinion **Open Access**

Classification of Public Private Partnership Projects in Developing Countries

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Opinion

Public-private partnership (PPP) is a business model that constructs public assets or provides public services through the cooperation of private investors and the government. Private investors depend on management skills or fund support to participate in infrastructure projects to gain economic benefits by undertaking various risks under this business model. The private investors include the complete use professional skills, resources, and experiences and effectively increase the operational efficiency of projects. For example, commercial entities or retail consumers can manage microgrids to balance interests of stakeholders. In various developing countries, they have released a bunch of policies to support the promotion of PPP model which is beneficial to accelerate the construction and improve the management of infrastructure projects. Several infrastructure projects have been planned and completed through the PPP model to alleviate the financial burden of government; this method is considered effective in various developed and developing countries. Through the investment and management of the private sector, the PPP model enables the early availability of public products and services that is particularly attractive in developing countries. In addition, the reason of the private sector involved in PPP projects are considerably driven by economic benefits, thereby enabling them to implement highly efficient risk management, and the possibility of project overspending is lower than when direct government management is involved. However, there are not a specific classification of PPP model in developing countries which results in the low-effective policy implementation related to PPP projects.

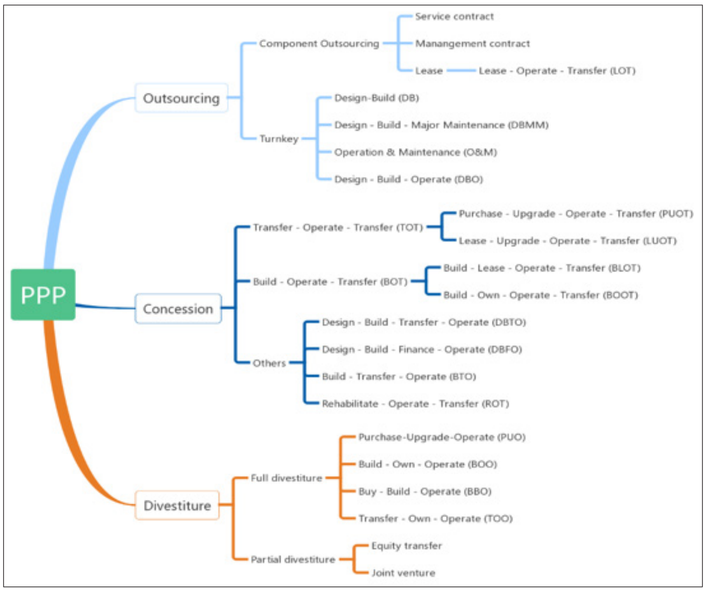

Figure 1: Classifications of the PPP models.

This article mainly divides PPP into three types by combining the applications of PPP projects with the World Bank, Commission of the European Union, PPP National Committee of Canada, and China (Figure 1). The main functions of PPP for developing countries are public-private cooperation, pooling-of-interest, and risk sharing. Reasonable risk sharing by the public and private sectors are the primary goals of PPP projects to relieve the debt pressure of governments of developing countries. Furthermore, this article classifies outsourcing and lease into component outsourcing projects of PPP because these projects involve risk management and sharing. The classification is beneficial to governments for implementing particular policy and private investor for planning optimal strategy on project investment. The PPP model is generally divided into three types: outsourcing, concession, and divestiture projects.

a. Outsourcing Projects

The public sector is in charge of the entire project construction and operation. A single or several tasks of the entire project, such as engineering construction, facility installation, and follow-up service, are allocated to the private sector. Thereafter, the private sector obtains economic compensation from the public sector. In this mode, the private sector takes small risks because it is only responsible for a part of a project.

b. Concession Projects

The private sector participates in a part or all investments and shares project risks with the public sector in terms of practical situations. In general, the private sector pays a certain amount of cost to the public sector for obtaining the right to manage and oversee projects. After the rights expire, the usage right and ownership of the project are transferred from the private to the public sector. Concession projects are characterized by the private sector taking the majority of the market risks during the operation.

c. Divestiture Projects

The public sector transfers assets to the private sector permanently. The rights related to the management of and decision-making concerning assets are transferred to the private sector. Thus, the degree of privatization of a project is determined by the equity ownership of the private sector.

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