

Achieving Sustainable Development in Sri Lanka through Public Private Partnership for Infrastructure Projects

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INTRODUCTION AND RESEARCH PROBLEM

Sustainable development is about ensuring a development that reaches the present needs without compromising the reach of future generations to meet their own needs (Drexhage, 2012). According to Stranger and Bayley (2008), sustainable development can be linked to environment, social and economy as integration. Benefits of the sustainable development should be spread in the widest possible range of sectors, across borders and even between generations.

Infrastructure can be considered as the basic physical and organizational structure required for the proper operation of a society. A long time back, infrastructure services in most countries were provided by state-owned utility companies that were vertically integrated. Although this model initially produced some desirable results, it ultimately led to serious problems. These problems included under-investment; caused, to a large extent, by underpricing, low productivity, poor service delivery, long queues, lack of access to basic services, lack of transparency and damaging political interference in the operations of these infrastructure entities. Afterwards, as a settlement for above problems, private investment

referred as Public Private Partnership (PPP) for infrastructure was suggested (Zhang, 2005).

The foremost benefit of PPPs alluded to above is that such partnerships allow for public authorities to raise capital for high priority works that might otherwise not be possible in the face of budgetary and borrowing constraints. Moreover, PPPs can draw on private sector expertise in order to deliver services and infrastructure efficiently and cost-effectively and further bridge the gap between the resources required and those available from the public purse (Kevin, 2012).

As a developing country, Sri Lanka is yet to build the required infrastructure facilities for the country (Nabi, 2013). Developing infrastructure is a huge challenge for the government, considering the lack of economic and other factors (Central bank report, 2012). Nevertheless, it could be argued that many of these challenges can be overcome through proper application of PPP in Sri Lankan context. Therefore, this research intends to address this issue by formulating the research problem as; 'How to apply PPP for developing infrastructure to achieve sustainable development in Sri Lanka'.

Research Aim

The aim of this research is to explore the possibility of applying Public Private Partnerships for developing infrastructure to achieve sustainable development in Sri Lanka

Objectives

- To identify the effect of infrastructure in achieving sustainable development in a country.
- To identify the obstacles for developing infrastructure in developing countries.
- To identify obstacles for developing infrastructure in Sri

- To identify the applicability of PPP in overcoming the obstacles in infrastructure development in Sri Lanka.
- To provide recommendations for proper applicability of PPP in Sri Lankan infrastructure development

METHODOLOGY

Case Study

The research problem is; “how sustainable development can be achieved through application of PPP for infrastructure projects in Sri Lanka”. Yin (1994) suggested the case study research approach for the researches trying to address problems like “how” and “why” types. He further stated that, a case study is an empirical inquiry that investigates a contemporary phenomenon within a real-life context.

Since this research is focused on assessment of achieving sustainable development through PPP for infrastructure projects, three cases (infrastructure projects) were selected focusing on two types of infrastructure construction. One from economic infrastructure and other from social infrastructure; including two public private partnership projects and one traditional (government funded) project.

Case 1- Expansion of Container terminal by public private partnership

Case 2- Expansion of Container terminal by port authority

Case 3 - Collecting wastage and waste management project, which is being done by municipal council of the area before January 2014 and after 2014 it is being done by a private partner

Data Collection

Semi structured interviews were used as the main data collection method. The interviews were conducted with individuals who were involved in selected PPP project. The interviews were tape-recorded to secure an accurate account of the conversations and avoid losing data since everything cannot be written down during interviews. Altogether, 12 interviews were conducted and each normally lasted for 30 minutes to one hour.

Table 1: Designation of Expert Interviews

Designation of Expert	Project	Sector
Chief Engineer	Case 1	Government
Marketing manager	Case 1	Private
Deputy director, project finance – BOI	Case 1	Government
Managing Director –Accounting	Case 1	Private
Assistant Marketing manager	Case 2	Government
Chief Engineer	Case 2	Government
Business development manager	Case 2	Government
Financial manger	Case 2	Government
Project manager	Case 3	Private
Project coordinator	Case 3	Private
PHI for municipal council	Case 3	Government
Municipal commissaries	Case 3	Government

A *questionnaire survey* was carried out to identify the effect of selected cases on social and environment development. There were 30 respondents from direct consumers in case 1 and 2. When considering case 3, there were different consumers. Due to that another 30 questionnaires were carried out for case 3.

RESULTS AND FINDINGS

Obstacles Faced by Client during the Construction and Operation of the Projects

Insufficient capital is the main obstacle for developing infrastructure in developing countries according to the literature synthesis. It can be stated that seeking private partnership or getting a long term loan are the solutions to overcome that main obstacle. Due to that, case 1 was from private partnership and case 2 was from long term loan. According to the literature synthesis and cross case analysis of case 1, 2 and 3, high risk, lack of knowledge and technology and lack of awareness are the other main obstacle faced by the client.

Overcoming Obstacles

When considering case 1 and 2, obstacles were overcome through different ways. Case 1 used a private partner investment to overcome the problem of insufficient capital and case 2 overcame it by a long term loan. In case 1, the government got the infrastructure facility after 30 years without any cost but in case 2, the government had to pay back the loan with interest. In case 3, municipal council decided to overcome insufficient capital by private partner investment.

Developing infrastructure is more risky for the government, because it is a long term investment. Returns of the investment of infrastructure projects are gained after a long time. In case 2, the government decided to bear all the risks on its own and in the case 1 and 3, the government shared the risk with a private partner. PPP helps to share and transfer the risk to the most suitable party. It has been identified as an excellent method of overcoming high risks.

Lack of knowledge can be considered as the next obstacle for developing infrastructure facilities. In case 1 and 3, the private partner was already an expert of the particular infrastructure sector. For example, some private partners of case 1 were from world port

business and case 3 was from the waste management sector. Due to that, they already had the expert knowledge and skills in operating on those projects. However in case 2, the government had to hire the knowledge and skills for the operation. Same as the lack of knowledge, lack of technology was also overcome by case 1 and 3 by using PPP.

Achieving Objectives of Sustainable Development

Achieving objectives under the economic, social and environmental sectors are of paramount importance. According to the cross case analysis, case 1 had more successfully achieved the objectives related to the socio economic and environmental development than case 2. When considering case 3, there was a considerable improvement in achieving those objectives after the involvement of a private partner.

Results, of the questionnaire survey, shown in the following tables suggest that there was better social satisfaction in case 1 compared case 2 and that concludes that case 1 had a better effect on social development.

Table 2: Effect of Achieving Objectives on Sustainable Development (Case 1)

Objectives	Significance		
	Satisfactory	Good	Excellent
Increasing Productivity	0	14	16
Increasing Efficiency	0	18	12
Profitability	2	12	16
Return on equity	4	8	18
Using new system	0	6	24
Using new technology	0	6	24
Customer satisfaction	0	20	10
Creating job opportunities	18	12	0

Table 3: Effect of Achieving Objectives on Sustainable Development (Case 2)

Objectives	Significance		
	Satisfactory	Good	Excellent
Increasing Productivity	2	15	13
Increasing Efficiency	0	18	12
Profitability	5	18	7
Return on equity	13	15	2
Using new system	15	13	2
Using new technology	23	7	0
Customer satisfaction	6	17	7
Creating job opportunities	0	20	10

Strength of PPP

- Best management skills of private sector
- Performance based contracting
- Private party introduce new working tradition to SLPA
- Private sector always practise new system and technology
- Competition between private and public
- Private sector can make decision fast

Challenges of Implementing PPP

- Inadequate framework for public private partnerships
- High implementation cost of PPP
- Lack of success case studies for PPP in Sri Lanka

CONCLUSION AND IMPLICATIONS

Results of the findings show that PPP projects provide a way forward for achieving sustainable development in Sri Lanka. Following criteria can be identified in order to effectively utilise PPP by overcoming the challenges of its implementation.

Identify the Infrastructure which can be Developed under the PPP

As a developing country, Sri Lanka has to develop more infrastructure facilities to achieve development. However, Sri Lanka is lacking sufficient capital to develop all infrastructure facilities. By identifying the infrastructure which can be developed under PPP, the government can reduce budgetary requirement for those projects and that limited capital can be used for another infrastructure development.

Adequate Risk Transfer to the Private Sector

Developing infrastructure is a long term investment and it needs a huge capital investment. Therefore it accompanies a considerable amount of risk for the client. When considering the PPP arrangements, government could and should transfer adequate amount of risk to the private partner.

There must be a PPP Unit within PPP Projects

There must be a PPP unit for assisting the PPP program. Some countries have PPP units for assisting performance. Through the literature it was identified that, United Kingdom, Australia, South Africa, and Korea are example for maintaining proper PPP units for assessing PPP projects. There is a PPP unit in Sri Lanka under the Board of Investment (BOI) and they only involve in BOI projects. There must be a PPP unit to monitor all PPP projects in Sri Lanka. PPP units can help to find bidders and they can also consider the financial and management strength of the bidders. Institutes can have an overall control of project.

There must be Proper a Bidding Procedure

In some Sri Lankan PPP projects, there are nominated partners for the project. It is not the ideal way going forward to find the best partner and it does not denote transparency. Due to that using proper bidding procedures will help the success of PPP projects.

REFERENCES

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