

Issues and Prospects of Public Private Partnership in India

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ABSTRACT

It has been observed worldwide that it is difficult for the private sector to meet the financial requirements of infrastructure in isolation at the same time tackling the risks inherent to building infrastructure. Public-Private Partnership is the most recent addition in the world of economic development and growth across the country. The government has started a number of schemes in joint collaboration with private sectors in order to give national economy an impulse and thus enhancing the pace of economic growth. Public Private Partnership has become the demand of developing India. There are many sectors and subsectors of Public Private Partnership in India i.e. Infrastructure, health, education, women empowerment, vocational education etc. Therefore, the PPP model has come to represent a logical, viable and necessary option for the Government and the private sector to work together. Public Private Partnership (PPP) project as per Government of India means a project based on a long term contract or concession agreement, between a Government or statutory entity on the one side and a private sector company on the other side, for delivering an infrastructure service on payment of user charges. The concession agreement is specifically targeted towards financing, designing, implementing and operating infrastructure facilities and the collaborative ventures are built around mutually agreed allocation of resources, risks and returns. In this paper author highlight the concept and growth of Public Private Partnership, analysis of various Public Private Partnership models as per industry requirements, advantages and disadvantages of Public Private Partnership in developing economy like India, Investigating the problems of Public Private Partnership model in India and suggesting probable solutions.

Keywords: Economy, Infrastructure, PPP, Projects.

INTRODUCTION

Public Private Partnership is a joint collaboration between public and private sectors so as meet the paucity of capital investment to fulfill the requirement of infrastructural development. To bridge the gap of the basic services the Government is using the concept of PPP. The PPPs have come into existence from over a decade but it has been more successful from past few years. PPPs are one of the best efforts that have been taken the Government of India. Such measures are necessary for the growth and development of the growing economies like India. It has been observed worldwide that it is difficult for the private sector to meet the financial requirements of infrastructure in isolation at the same time tackling the risks inherent to building infrastructure. Therefore, the PPP model has come to represent a logical, viable and necessary option for the Government and the private sector to work together.

Public Private Partnership (PPP) project as per Government of India means a project based on a long term contract or concession agreement, between a Government or statutory entity on the one side and a private sector company on the other side, for delivering an infrastructure service on payment of user charges. The concession agreement is specifically targeted towards financing, designing, implementing and operating infrastructure facilities and the collaborative ventures are built around mutually agreed allocation of resources, risks and returns. These are collaborative efforts, between private and public sectors, with clearly identified partnership structures, shared objectives, and specified performance indicators for delivery of services. India has seen real progress over the last 10 years in attracting private investment into the infrastructure sectors. All levels of government are aiming to use public private partnerships (PPPs) more intensively to help meet gaps in the provision of basic services. It involves the private enterprise (in the involvement of management expertise and/or monetary contributions) in the government projects aimed at public benefit. The government remains

actively involved throughout the project’s life cycle. The private sector is responsible for the more commercial functions such as project design, construction, finance and operations. These schemes are sometimes referred to as PPP, P3, or P3.

Table-1 Attribute Comparison between Public, Private and PPP

ATTRIBUTE	PUBLIC	PRIVATE	PPP
Responsibility	Government	Entrepreneur	Government
Ownership	Government/Public	Private Sector	Government
Nature of Service	Government	Decided by private operator	Mutual Agreement
Risk & Reward	Government/Public	Private Sector	Shared between govt. and private party

Source: Report of Government of India Ministry of Finance Department of Economic Affairs, November 2009

LITERATURE REVIEW

Chambers, 2006 analyzed that rural India needs business to invest in industries such as finance and insurance; in ventures that bring new infrastructure such as telephony and roads. This is where telecommunications can help. Where physical infrastructure may not reach easily, the Internet can. Broadband access is the ideal platform to connect a geographically diverse country such as India. This high-speed Internet technology holds tremendous potential, such as distance learning, telemedicine, supply chain management, customer relationship management.

Desai, 2006 focused that even though PPP models allow for exclusive rights over public assets, it is free from the evil of monopoly business such as high user charges or low service quality. This happens when government follows a competitive bidding process to decide on lowest user charges or provide viability gap funding to safeguard consumer interests. Contracts are designed to ensure service quality.

Abdel Aziz, 2007 examined the principles that need to be addressed in order to ensure the successful implementation of a PPP program include: to understand the objectives of using private finance when selecting a PPP arrangement, to properly allocated risks to the private sector, to establish a broad and comprehensive PPP legal framework, to assess the value for money when selecting a delivery system, to create a PPP unit for policy development and/ or implementation, to maintain the transparency in the selection process, to standardize the procedures and contracts, and to use performance specifications. GOI, 2007 & Datta, 2009 sight that if we judge by the way many governments are currently committing themselves to PPP approach, it is evident that the Public Private Partnership (PPPs) has become a popular way of providing public sector infrastructure and services. These partnerships must supplement the scarce public resources for improving the investment in infrastructure sectors, and at the same time improving efficiencies and reducing costs.

Mahalingam A, 2008 focused on India’s infrastructure needs, PPPs are a necessity and not just an option. However, there are a myriad of issues that need to be addressed and resolved in order to facilitate a better understanding on how to develop infrastructure efficiently and seamlessly via PPPs.

Chaudhary L & Bogart D, 2009 have emphasized that over the last decade, there has been a substantial increase in public-private partnerships across the world in many different sectors such as infrastructure, banking, etc. India’s historical experience suggests that for these partnerships to succeed, state actors need the proper incentives to cut costs and improve efficiency. Public good investments should also be a key consideration. As the Indian case illustrates, public and private authorities will have different incentives to implement improvements and innovations with broader effects.

Haldea G., 2013 analysed that there is a broad consensus in India that Public Private Partnership is the way forward for the creation of world class highways. Since an enabling framework is a pre-requisite for attracting competitive private investment, the model documents, the appraisal process and the viability gap funding scheme have been adopted as the supporting pillars of a strong and sustainable PPP framework in the highway sector.

Saravanan P, discussed that PPP deal as well assessing the risks associated with them in an infrastructure framework. Each of these models can be investigated further for risk, return patterns and the advantages gained in government and the private enterprise to arrive at well-structured PPP contracts.

OBJECTIVES OF THE STUDY

- To understand the concept and current status of Public Private Partnership (PPP) Projects in India.
- To analyse effectiveness of various assistance schemes and emerging areas of PPP projects.
- To focus on the scope of PPP projects in Indian Infrastructure.
- Investigating the problems of Public Private Partnership model in India and suggesting probable solutions

RESEARCH METHODOLOGY

This research paper is purely based on secondary data collected from various sources. All the data generated from Government of India official website and the official website of the committee on infrastructure, Planning Commission, ministry of finance and Investment Commission of India. The other major tools for the collection of the information has been from available literature as journals, books, and news of Govt. of India and states Govt. related to the PPP.

Government Efforts for Promotion of PPP in India Efforts at the Central Government and State Level

Recognizing that strengthening the capacities of different levels of government to conceptualize, structure and manage PPPs will lead to more and better PPPs, DEA is facilitating mainstreaming PPP through Technical Assistance from ADB. The primary objective is effective institutionalization of the PPP cells to deliver their mandate through provision of 'in house' consultancy services to each of the selected entities at the Centre and State level.

Technical Assistance

The selected entities will be provided assistance for a period till December 2009 in the form of

- One PPP Expert on an individual basis focusing on project financial analysis and risk management
- One Management Information Systems expert focusing on information management.
- A panel of three legal experts on retainer basis to provide legal expertise on PPPs.

Eligibility

The States wishing to avail this Technical Assistance are required to enter into an MOU with DEA detailing steps that would be taken to promote PPPs in the State. The MOU requires the State Government to:

- Set up a PPP cell as the nodal agency for processing all PPP projects in the State with a designated PPP Nodal Officer and defined scope of work
- Develop a robust shelf of projects amenable for PPPs and adhere to the following set of targets on the level of PPPs in the State:
 - During 2007-08 bid out at least 3 projects with a total cost of Rs. 750 cr or more in at least two sectors
 - During 2008-09 bid out at least 5 projects with a total cost of Rs. 1250 cr or more in at least three sectors
 - During 2009-10 bid out at least 5 projects with a total cost of Rs. 1500 cr or more in at least four sectors
- Commit to establish such policies and regulatory and governance frameworks in the identified infrastructure sectors to enable a transparent and effective private sector participation
- Prepare a 'Plan of PPP projects' in conjunction with its Annual Plan.

Commit To

- Adopt standard concession agreements for PPP projects in defined infrastructure sectors
- Adopt competitive bidding procedure for bidding and awarding of infrastructure projects under defined rules and procedures according to best international commercial practices and GOI guidelines
- Designate a State-level dispute resolution mechanism for the speedy resolution of disputes relating to PPP projects
- Adopt formal State policies on environment, resettlement and social safeguards with respect to the implementation of infrastructure projects, according to best international commercial practices.

Outcomes

The Technical Assistance aims to:

- Help the participating State to implement PPP schemes effectively and efficiently
- Enhance capacity of PPP cells in participating entities to prepare, evaluate and appraise PPPs in infrastructure.
- Significantly improve monitoring of overall progress in PPPs in infrastructure at both central and state levels through well-knit databases.
- Increase awareness among potential private sector partners about the project cycle of PPP projects in infrastructure and the expectations of Government with respect to value for money.
- Over the long term, an increase in private sector participation in infrastructure development and management throughout the country.

India Infrastructure Project Development Fund:

Finance Minister in his Budget 2007-08 speech announced the setting up of IIPDF in DEA with an initial corpus of Rs. 100 cr for supporting the development of credible and bankable PPP **ZENITH** projects that can be offered to the private sector. The IIPDF will be available to the Sponsoring Authorities for PPP projects for the purpose of meeting the project development costs which may include the expenses incurred by the Sponsoring Authority in respect of feasibility Studies, environment impact studies, financial structuring, legal reviews and development of project documentation including concession agreement, commercial assessment studies (including traffic studies, demand assessment, capacity to pay assessment) etc. required for achieving technical close of such projects, on individual or turnkey basis, but would not include expenses incurred by the Sponsoring Authority on its own staff.

Eligibility for IIPDF

- Sponsors to include Central Government Ministries/Departments, State Governments, Municipal or Local Bodies or any other Statutory Authority.
- Necessary for the sponsoring authority to create and empower a PPP cell to not only undertake PPP project development activities but also address larger policy and regulatory issues to enlarge the number of PPP projects in its shelf.
- The IIPDF will finance an appropriate portion of the Transaction Advisor costs on a PPP Project where such Transaction Advisors are appointed by the Sponsoring Authority through a transparent system of procurement under a contract for services.

Government Support for IIPDF

- IIPDF will contribute upto 75% of the project development expenses to the Sponsoring Authority as an interest free loan. 25% will be co-funded by the Sponsoring Authority.
- On successful completion of the bidding process, the project development expenditure would be recovered from the successful bidder. However, in the case of failure of the bid, the loan would be converted into grant. In case the Sponsoring Authority does not conclude the bidding process for some reason, the entire amount contributed would be refunded to the IIPDF.

Transaction Advisers for PPP Projects:

The Government has pre-qualified a panel of firms through International Competitive Bidding. The short listed consultants have been evaluated for their capability and experience in discharging a lead role in PPP transactions. The panel is intended to:

- Streamline the tendering process for the engagement of transaction advisers for PPPs.
- Enable fast access to firms that have prequalified against relevant criteria.

- Ensure transparency and accountability through clear definition of the processes and the role and responsibilities of the agencies and the private sector.

This panel is available to all Central, State and Municipal Governments who are undertaking PPP transactions. They would be able to select any of the consultants from this panel through a limited financial bid without having to go through the lengthy and more complex technical bid. Firms on the panel will contract directly with the agencies concerned for provision of transaction management services. DEA would be kept informed on the use being made of the panel, and the performance of panel members. States can draw upon IIPDF to incur expenditure on hiring of Transaction Advisors.

Development and Use of PPPs for Delivering Infrastructure Services

Development and use of PPPs for delivering infrastructure services has now at least 11 years of precedence in India, with the majority of projects coming in line in the last 5 years. Policies in favor of attracting private participation as well as innovation with different structures have met with varying degrees of success. Some sectors like power, and ports and roads, have done very good progress compared to limited success in other sectors.

Table-2 Total No of PPP Project In India (State Wise)

State	Number Of Project	Total Project Cost (in RsCrore)
Andaman & Nicobar Islands (UT)	2	137.64
Andhra Pradesh	65	35,602.90
Arunachal Pradesh	140	297,899.53
Assam	12	1,498.78
Bihar	16	9,826.99
Chandigarh (UT)	1	15.00
Chhattisgarh	8	2,808.47
Delhi (UT)	15	15,868.98
Goa	9	5,477.95
Gujarat	123	77,476.83
Haryana	23	13,807.79
Himachal Pradesh	113	52,638.62
Jammu & Kashmir	7	26,441.00
Jharkhand	14	5,200.70
Karnataka	131	61,976.33
Kerala	33	19,261.15
Madhya Pradesh	165	32,134.93
Maharashtra	219	135,379.97
Meghalaya	2	762.11
Multi State/ Centre	45	54,037.22
Odisha	29	33,077.66
Puducherry (UT)	1	285.00
Punjab	47	7,199.47
Rajasthan	123	30,623.96
Sikkim	15	23,547.08
Tamil Nadu	70	36,236.86
Telangana	19	24,132.03
Uttar Pradesh	61	109,662.39
Uttarakhand	24	3,205.38
West Bengal	33	14,261.98
Total	1565	1,130,484.70

Table-3 Sector Wise PPP Projects

Sector/Sub-sector	Number Of Project	Total Project Cost (in RsCrore)
Communication	0	0.00
Energy	366	402,892.86
Electricity generation (grid)	10	8,780.14
Electricity transmission	33	23,594.38
Oil/ Gas/ LNG Storage	1	1,500.00
Renewable energy (grid)	322	369,018.34
Social and Commercial Infrastructure	148	17,749.93
Cold Chain	20	1,888.27
Common infrastructure for industrial parks, SEZ	34	8,480.52
Education	36	522.94
Health Care	12	1,020.99
Tourism	46	5,837.21
Transport	931	692,542.62
Airports	11	37,339.02
Ports (excluding captive)	108	135,372.49
Railway track, tunnel, viaducts, bridges	9	7,388.39
Roads and bridges	721	480,909.23
Urban public transport (except rolling stock)	82	31,533.49
Water Sanitation	120	17,299.29
Irrigation (dams, channels, embankments, etc.)	2	580.50
Sewage collection, treatment and disposal system	24	1,847.73
Solid waste management	65	8,131.59
Water supply pipeline	23	5,396.23
Water treatment plants	6	1,343.24
Total	1565	1,130,484.70

We see that road projects account for 46% of the total number of projects and 42.5% by total value because of the average size of projects. Ports though account for 7% of the total number of projects have a larger average size of project and contribute 12% in terms of total value. The potential use of PPPs in e-governance and health and education sectors remains largely effected across India as a whole, though off-late there have been some activities shaping in these sectors. Across states and central agencies, the leadingusers of PPPs by number of projects have been Arunachal Pradesh Karnataka, and Rajasthan, with 140, 131 and 123 awarded projects respectively. In terms of main types of PPP contracts, almost all contracts have been of the BOT/BOOT type (either toll or annuity payment models) or close variants. In terms of approach to provider selection, almost all the projects in the sample were competitively bid (either national or international competitive bidding) with the negotiated ones (through MOUs) primarily coming from the railway PPP projects, which is understandable given the lack of clear policy framework and standard contract still date. In terms of contract award method the International Competitive Bidding yielded 39% of total investment in India followed by Domestic Competitive Bidding with 33%.

Table-4 Status Wise Pppprojects

Status	Number Of Project	Total Project Cost (in RsCrore)
Pre-construction Stage	283	412,806.66
Not Available	66	29,563.20
Completed	20	741.54
Operation and Maintenance Stage	717	296,000.80
Under Construction	479	391,372.50
Total	1565	1,130,484.70

Only 1.28% Projects is completed, 31% are under construction and 45% are at operation & Maintenance stage.

CHALLENGES IN PPP IN INDIA

Regulatory Environment: There is no independent PPP regulator as of now. In order to attract more domestic and international private funding of the infrastructure, a more robust regulatory environment with an independent regulator is essential.

Lack of information: The PPP program lacks a comprehensive database regarding the project to be awarded under PPP. An online database, consisting of all the project documents, including feasibility report, concession agreement and the status of various clearances are required.

Project development: The absence of adequate project development by authorities leads to reduced interest by the private sector, mispricing and many time delays at the time of execution.

Lack of institutional capacity: The limited institutional capacity to undertake large and complex projects at various central ministries and especially at state and local bodies' level hinder the translation of target into projects.

Financing availability: With commercial banks reaching the sectoral exposure limits, and large Indian infrastructure companies being highly leveraged, funding the PPP project is getting difficult.

CONCLUSION

India has witnessed an absolute metamorphosis over the last decade. Sprawling cities, flourishing businesses, higher standard of living are all indicators of unprecedented growth, globalization, urbanization, expansion and diversification. Infrastructure modernization and development is said to be the key driver of all the growth and economic activity. The public sectors alone can't meet the required funds and technology for the projects. So the Government decided to accomplish this business by collaborating with the sector which could provide this requirement which was none other than the private parties. Thus PPP emerged as a joint collaboration of the public and private sectors. The Indian infrastructure sector is at an inflection point and there are immense opportunities for the private sector. The PPP has come in to existence from over a decade but it has shown remarkable results in past 5-6 years. Almost every sector is covered where PPP needs to be implemented. Many foreign companies also show their interests but their participation is not much as the domestic private companies. The sectors covered in this research are health, education, power and transport.

Indian infrastructure growth has reached massive heights. Most PPPs have been restricted to the roads sector. And the sector still has lot of scope and the measures are taken also by the PPPs to achieve it. Ambitious project plans have been developed for various transport sectors to bridge the infrastructure gap. The sectors are booming but there are hindrances and constraints persist threatening to slow down growth in the smooth development of world-class infrastructure. This is because the private sectors which are involved in the PPPs have the prime motive of profit making rather than doing any social work. The companies which have the close contact with political parties can also take up a project with a view of making lot of profits. If the project reaches in the wrong hands that are if the tender is passed to a wrong person he may severely cause problems. But the Government is controlling all these constraints to have successful examples in PPP and heading towards the economic development of the country. It has taken various steps to accomplish the projects successful.

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