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CURRENT SCENARIO OF PUBLIC-PRIVATE PARTNERSHIP (PPP) PROJECTS IN INDIA

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Abstract: This paper refers to the current status of PPP projects in India. The current Government is paying much attention towards infrastructure development. To meet these requirements Government is making use of the private sector in a big way. This is also because to increase the pace of the infrastructure development the government needs capital and manpower. The private sector is providing both the important constraints in infrastructure development. Moreover this paper also focuses on the role of current government for infrastructure development.

I. Introduction

Public-private partnership (PPP) is a funding model for a public infrastructure project such as a new telecommunications system, airport or power plant. The public partner is represented by the government at a local, state and/or national level. The private partner can be a privately-owned business, public corporation or consortium of businesses with a specific area of expertise. PPP is a broad term that can be applied to anything from a simple, short term management contract (with or without investment requirements) to a long-term contract that includes funding, planning, building, operation, maintenance and divestiture. PPP arrangements are useful for large projects that require highly-skilled workers and a significant cash outlay to get started. They are also useful in countries that require the state to legally own any infrastructure that serves the public.

II. Common Forms of the PPP model in India

Different models of PPP funding are characterized by which partner is responsible for owning and maintaining assets at different stages of the project. Examples of PPP models include:

- Design-Build (DB): The private-sector partner designs and builds the infrastructure to meet the public-sector partner's specifications, often for a fixed price. The private-sector partner assumes all risk.
- Operation & Maintenance Contract (O & M): The private-sector partner, under contract, operates a publicly-owned asset for a specific period of time. The public partner retains ownership of the assets.
- Design-Build-Finance-Operate (DBFO): The private-sector partner designs, finances and constructs a new infrastructure component and operates/maintains it under a long-term lease. The private-sector partner transfers the infrastructure component to the public-sector partner when the lease is up.
- Build-Own-Operate (BOO): The private-sector partner finances, builds, owns and operates the infrastructure component in perpetuity. The public-sector partner's constraints are stated in the original agreement and through on-going regulatory authority.
- Build-Own-Operate-Transfer (BOOT): The private-sector partner is granted authorization to finance, design, build and operate an infrastructure component (and to charge user fees) for a specific period of time, after which ownership is transferred back to the public-sector partner.
- Buy-Build-Operate (BBO): This publicly-owned asset is legally transferred to a private-sector partner for a designated period of time.
- Build-lease-operate-transfer (BLOT): The private-sector partner designs, finances and builds a facility on leased public land. The private-sector partner operates the facility for the duration of the land lease. When the lease expires, assets are transferred to the public-sector partner.
- Operation License: The private-sector partner is granted a license or other expression of legal permission to operate a public service, usually for a specified term. (This model is often used in IT projects.)
- Finance Only: The private-sector partner, usually a financial services company, funds the infrastructure component and charges the public-sector partner interest for use of the funds.

III. PPP has great potential in a country like India

In spite of various bottlenecks, public-private partnership in infrastructure holds great potential in a country like India. A long-term sustainable infrastructure plan needs to be developed that will create an environment for increased private sector investments for faster execution of the projects.

A special report by the Federation of Indian Chambers of Commerce and Industry:

Development of infrastructure is a precondition for the economic growth of a country. Increasing demand for quality infrastructure can only be met with robust investment, proficient project management and technological advancement. To meet these requirements, governments are utilising the capabilities of the private sector in a big way. Public-private partnerships have become the preferred mode for the construction and operation of infrastructure projects, both in developed and in developing countries. As most governments in emerging economies are facing fiscal and capacity constraints, PPP provides a way for them to bridge the gap in infrastructure investment, the Federation of Indian Chambers of Commerce and Industry says in a special report made available to Project monitor. PPP not only brings in additional capital but also enables both public and private sectors to bring to the table their own experiences and strengths, resulting in efficient development of infrastructure and service delivery. The PPP mode, however, comes with its own set of challenges since attracting private investment is not easy. The private sector not only requires an investor-friendly regulatory environment, but also returns on investment. The Government of India, therefore, has been focusing on the development of enabling tools and activities to encourage private sector investments in the country through the PPP format.

The National Democratic Alliance (NDA) government has given a fresh lease of life to the public-private partnership (PPP) projects across sectors such as housing, railways, roads, aviation, power distribution, mining and even school education and health services.

PPPs relate to the delivery of public services by private entities, and are awarded through a competitive bidding process. These projects are typically run on the lines of build-operate-transfer, build-operate-own-transfer or build-operate-own models and are favoured by governments globally to make up for a shortfall in investment spending.

IV. Kelkar Committee Report

In the Union Budget 2015-16, the Finance Minister Shri Arun Jaitley had announced that the PPP mode of infrastructure development has to be revisited and revitalised. In pursuance of this announcement, a Committee on Revisiting & Revitalising the PPP model of Infrastructure Development was set-up which was chaired by Dr. Vijay Kelkar. The Report of the Committee submitted to the Government has been uploaded on the Ministry of Finance's website.

Amongst the recommendations made are:

- Establishment of 3P India.
- Case based risk allocation formula for various project participants.
- Establishment of independent regulating agencies.
- An amendment in the Prevention of corruption act to differentiate between errors of judgement and will full corrupt practices.
- Use the PPP model for airport, port and railway projects.
- Banks and other financial institutions be allowed to issue zero-coupon bonds.
- The number of banks in a consortium be restricted.
- Banks develop improved capabilities for risk assessment and appraisal.
- Specific guidelines for encashment of bank guarantees.
- To provide for monetization of completed projects.
- Create a procedure to resume stuck projects.
- PPP should only be used for large projects.
- Creation of an inbuilt mechanism for renegotiation.
- Model concession agreements in various sectors are reviewed.
- The public sector undertakings be dissuaded from participating in PPP
- Road toll be collected electronically
- Constitution of an Infrastructure PPP Project Review Committee (IPRC) comprising an expert in finance and economics, law, and at least one related technocrat with not less than 15 Years' experience.

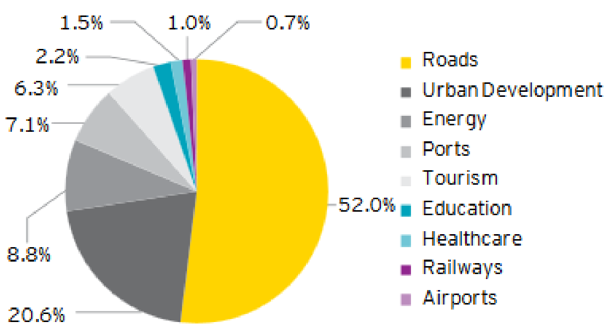
- Constitution of an Infrastructure PPP Adjudication Tribunal (IPAT) headed by a former Supreme Court/ High Court Judge with at a minimum of one technical and financial expert each as members.

V. Current Status

India has had 881 PPP projects worth more than `5.4 trillion in awarded/underway status (i.e. in operational, construction or in stages where at least construction/implementation is imminent) as per data available till August 2012.

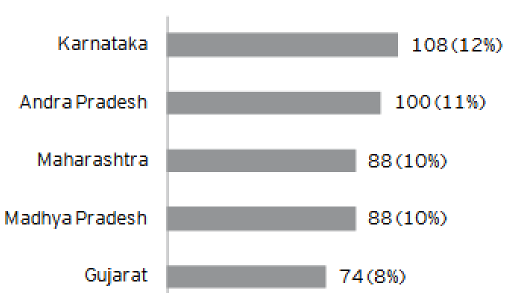
- Roads dominate the PPP scenario in India, accounting for 52 per cent of all PPP projects.
- There is a need for mainstream PPPs in several areas, such as power transmission and distribution, water supply and sewerage, and railways. These are sectors where there are significant resource shortfalls, and a need for efficient delivery of services.
- There is also a need to focus on social sectors, especially health and education, which currently accounts for only 3.7 per cent of PPP projects in India.

PPP projects in India by sector
(Total number of projects: 881)



Source: PPP India database accessed on 02 April 2013

Top five states in terms of number of PPP projects
(Percentage of total projects in India)



Five states constitute 51% of all PPP projects in India

The Constitution of India has defined the subjects on which the Centre and the States can legislate and frame policies. The key infrastructure sectors such as railways, national highways, airports and major ports are Central subjects and, therefore, the Central Government has been initiating measures to meet the growing demand for infrastructure in these sectors. Apart from public sector projects, numerous PPP projecs have also been awarded, and in many cases, these PPP projects are in operation. In the Central sector, a total of 65 PPP projects involving an investment of Rs. 25,343 crore had been completed up to December 2009, 83 PPP projects with an investment of Rs.75,914 crore were currently under implementation and another 160 PPP projects with an estimated investment of Rs. 1,84,807 crore were in the pipeline. Completed projects: Up to December 2009, 39 PPP projects of national highways with an investment of Rs.13,698 crore and 23 PPP projects in the port sector with an investment of Rs. 5,762 crore have been completed. In the civil aviation sector, airports involving a total investment of Rs.5,883 crore have been completed through PPP mode at Cochin, Bangalore and Hyderabad airports. Over 200 projects have achieved financial closure between 2008-2010 alone with total estimated project cost of US$18 billion.

VII. Private sector push

Private sector will push infrastructure growth in the 12th Five-Year Plan 2012-2017. The GOI realizes the importance of accelerating infrastructure development through increased private sector participation in order to boost the country's slowing economy.

- The Planning Commission has projected that investment in infrastructure will almost double to reach `55.7 trillion during the 12$^{th}$ Plan, as compared to `24.2 trillion in the 11th Plan (2007-2012).
- Out of this total investment, 48 per cent is expected to come from the private sector, which accounted for 36 per cent of investments in the 11th Plan.

VI. Role of multilateral agencies

The contributions of multilateral agencies, such as World Bank, Asian Development Bank and Department for International Development, in infrastructure development play a key role in improving the investment climate and fostering private sector participation.

There has been a shift in the funding pattern of multilateral agencies from public sector infrastructure projects to projects having private sector participation.

These agencies give priority to environment-friendly infrastructure projects.

Multilateral agencies provide financial and advisory support to infrastructure projects. They act as a stable source of long-term funds and knowledge base with strong PPP experience. They extend technical assistance (TA) to the governments to help them bring PPPs to the mainstream at the Centre and state level through capacity building e.g. establishing PPP cells in various states. Over the years, they have come up with new ways of providing financial assistance for infrastructure development, such as through multi-tranche financing facility and local currency loans

ADB provides funding through loans (senior debt, subordinated debt, mezzanine financing), equity investments (common shares, preferred stock or convertible) and guarantees (covering political and credit risk).

The World Bank supports infrastructure development through lending, dialogue, analytical work, engagement with the private sector and capacity building. The Bank had also provided financial assistance to India Infrastructure Finance Company Ltd. The World Bank plans to invest `1.1 billion to improve the Mumbai suburban railway stations through construction of escalators, elevators and footbridges. IFC, the private sector financing arm of World Bank, has set up an India Infrastructure Fund that invests in a diversified portfolio of project equity investments.

These agencies provide funding based on their mandate to promote inclusive growth and development through poverty alleviation. High stipulated level of social and environmental standards followed by these agencies sometimes act as a deterrent for the private sector to avail funding. Some of the ground rules followed by multilateral agencies to enter a PPP contract are as follows:

- The project should avoid crowding out private investors through concessional loans or by providing loans in commercially attractive sectors
- It should have the highest standards of safeguard compliance and corporate governance
- It should support projects that enhance clean technology and low carbon growth

Given the magnitude of India's infrastructure needs, multilateral institutions are expected to play an increasing role in bridging the infrastructure deficit and sustaining growth in the country.

VIII. Conclusion

The 12th Five-Year Plan intends to achieve a huge infrastructure investment target through PPPs. Currently, PPP in infrastructure is at the crossroads with initial euphoria around the PPP models slowing down. Delay in clearances, poorly defined contracts and red tape are pushing away the private sector from taking up new projects.

The government needs to work on each stage of PPP development — planning, designing, contracting, financing and monitoring. New models for PPP are required to be created to cater to the current challenging business climate. Unless project agencies are suitably empowered for effective and time-bound decision making, PPP agenda of the country is going to take time to evolve and develop. There needs to be a clear demarcation of the risks to be borne by public and private parties.

Despite various bottlenecks, PPP in infrastructure holds great potential in a country like India. A long-term sustainable infrastructure plan needs to be developed that will create an environment for increased private sector investments for faster execution of the projects. Collective efforts by both the private and the public sector and enabling policy provisions may help in achieving the infrastructure PPP agenda of the government.

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