EVALUATION OF PUBLIC PRIVATE PARTNERSHIP POLICIES IN INDIA: AN ANALYTICAL STUDY

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ABSTRACT

There are many sectors like energy, telecom, water, transportation and infrastructure the growth of which is very critical for survival of the nation. Infrastructure plays a vital role in facilitating trade, commerce and supporting high standards of living thereby increasing the global reach of a nation if properly funded, planned and maintained. It is a well documented fact that there is important association between high-calibre infrastructure and economic development. The governments operating at constrained budget and facing high population growth and developmental demands may not be able to reap the best advantages and make necessary investments owing to which they need the private sector for necessary capital, technology and expertise to execute public-sector infrastructure projects. Regulators and policy makers opine that if the right economic and political policy framework and institutional environments is vetted and structured, public–private partnerships (PPPs) can prove to become drivers for economic growth like in case of Middle East and North Africa. The best advantage of PPP is that it allocates risks and responsibilities to the parties best suited to handle it. The public sector is able to shift risks related to lack of demand and revenue, finance, design and construction, operation, maintenance and extraordinary circumstances to the private sector. The objective of the paper is to highlight how PPPs can propel and fuel economic growth, which type of PPP Contract improves quality and standard of living and which government policies are central to attract

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PPPs and to find an answer that whether PPPs provide a ground for global development or not. The analysis claims that ideal circumstances, right and judicious blend of policies can anticipate a thriving and open economy that is better positioned to extend its global reach like in case of India.

Key words: Public Private Partnership, Economic Development.

SECTION 1: INTRODUCTION

Public Private Partnership is a project based on a long term contract between a government and a statutory entity and/or government owned entity and a private sector entity for providing infrastructure service through investments and management by the private sector entity, for a specified period of time. The contract is for providing public services and/or public assets which are traditionally being provided by the government to the people. It is not a contract for outsourcing. There is well defined allocation of risk and returns between the private sector and the public entity. The central focus is to harness the efficiency of the private sector and overcome shortages of resources with the public sector. A PPP contract can take shape only if there is an appropriate regulatory framework, fiscal and financial Incentives favouring PPP, a project that government wishes to develop regardless of public or private capital, equitable risk allocation, reliable revenue source and political will. In the 12th five year plan (2012-17) the total value of projects awaited is Rs. 1220 Billions and out of which investments to the tune of Rs. 560 Billions is expected from the Private sector, according to planning commission. Provision of quality infrastructure is a pre-requisite for the economy to achieve a higher growth on a sustained basis. The investment requirements for development of infrastructure are enormous and cannot be met by the public sector alone. Attracting private capital is considered as a prime strategy to meet the deficit in resources. To achieve a new vision of growth, which is broad based and inclusive, Planning Commission GOI estimated increase in total investment in infrastructure from 4.5 percent to around 8 percent of the GDP in the 11th Five Year Plan (2007-2012). 11th Five Year Plan projected investments of over US $ 494 billion envisaged in the infrastructure sector which broadly includes ten sectors; road, rail, air and water transport, electric power, telecom, water supply and irrigation-which is equivalent to Rs. 20,27,169 Crore at 2006-07 prices. GOI's reliance on PPP model has been increasing in the recent past.The investment required by the Central and State Governments and the private sector in each of the ten major physical infrastructure sectors for sustaining a growth rate of 9% in GDP over the Eleventh Plan (2007– 08 to 2011–12) amounts to Rs 2056150 crore according to planning commission which is approximately 7.6% of GDP during the Eleventh Plan as a whole.

The objective of the paper is to highlight how PPPs can propel and fuel economic growth, which type of PPP Contract improves quality and standard of living and which government policies are central to attract PPPs and to find an answer that whether PPPs provide a ground for global development or not. The analysis claims that ideal circumstances, right and judicious blend of policies can anticipate a thriving and open economy that is better positioned to extend its global reach like in case of India.

To achieve the objective of the paper it is divided into following section. Section 1 i.e. the present section gives the brief snapshot of meaning of PPP. It also describes about the importance of PPP and how it can bridge the gap of financing the basic infrastructure projects to accelerate the process of economic development. Section II gives the basic review of existing literature. Section III gives data and methodology, followed by section IV which gives analysis and interpretations of results. Section V gives summary, conclusion and results. References form the part of the last section.

SECTION II: REVIEW OF LITERATURE

BOT enables governments in developing countries to attain finance for infrastructure requirements but these schemes are vastly prone to politicization. A number of projects have been characterized by extended delays, continual disputes, and intermittent failure to ever get underway. Even in the case of those which do proceed, the state often fails to accomplish its principal goals (Handley, 1997). Timely completion of large infrastructure projects at reasonable cost and of a specified quality is critical for success of PPP (Agrawal, 2010). An analysis of the existing state of knowledge, strengths and weaknesses of PPP reveals that we are still at a premature stage of learning as to which types of PPP are pertinent for which tasks and at managing PPPs to heighten public value (Bovaird, 2004). Determining value for money for a

PPP is an area which has been strongly criticised by a number of academicians and the practitioners (Grimsey & Lewis, 2005).

An analysis of nature, form and governance issues in debt and equity arrangements in PPP organizations by across different infrastructure sectors and developing environments reveals that debt has not been a valuable mechanism to control managers' behaviour since subordinate financing also functions to address debt agency in the capital structure of those regulated PPP organizations. Thus, tying performance of managers with the financial structure of regulated PPP organization is undermined in developing and emerging economies (Devapriya, 2006). Proponents of P3's focus on advantages while detractors assert that the expected benefits rarely materialize or are obtained at very heavy expense (Garvin, 2008).

Sector-wise analysis of infrastructure developments in India and the status of private participation and the PPP in building such public infrastructure raises some specific concerns in the power, transport, telecom, petroleum and urban infrastructure sectors which need attention like poor transparency of procedures, inappropriate risk allocation, improper project appraisal, cost and time overruns, overlapping of regulatory independence, lack of good governance etc (Lakshmanan, 2008). Certain critical risks associated with Build Operate Transfer projects in India can be delay in getting approvals, changes in law, cost overrun, difficulties in acquisition and compensation for land, enforceability of contracts, time overruns, tariff adjustment and environmental risk (Manjar, 2010).

Foreign players are investing with domestic player in PPP projects and Malaysian companies are leading investors in public private partnership (PPP) projects in India (Priya & Jesintha, 2011). PPP market is relatively less developed in United States (Garvin, M., 2010).

PPP model represents a rational, feasible and necessary option for the Government and the private sector to work together (Singh, 2011). Developing partnership with the private players plays a dynamic role in providing a momentum to the pace of rural development. Publicly funded rural development programmes in absence of private sector result in the reduction of accessing national, regional and international markets, especially for small producers. Development of rural economy along with the urban India is essential and public private participation is the key to make rural India self-reliant and growth oriented (Sinha, 2011). The present study is a comprehensive study and gives an in depth analysis of PPP as a new vehicle of economic growth.

SECTION III: DATA AND METHODOLOGY

To achieve the objectives of the study secondary data is used published in various journals, reports like pppinindia.com, website of Ministry of Finance, Reserve Bank of India etc. Design of the research paper is descriptive and analytical in nature. The reports, information and data is deeply analysed to find out whether PPP is a viable option or not and is considered an important tool in accelerating rate of economic growth.

SECTION IV: ANALYSIS AND INTERPRETATIONS OF RESULTS:

The objective of this section is to highlight how PPPs can propel and fuel economic growth. Before discussing this important role it is very important to know what PPP is, its evolution and different forms so that the best advantages can be reaped regarding which type drives maximum economic growth.

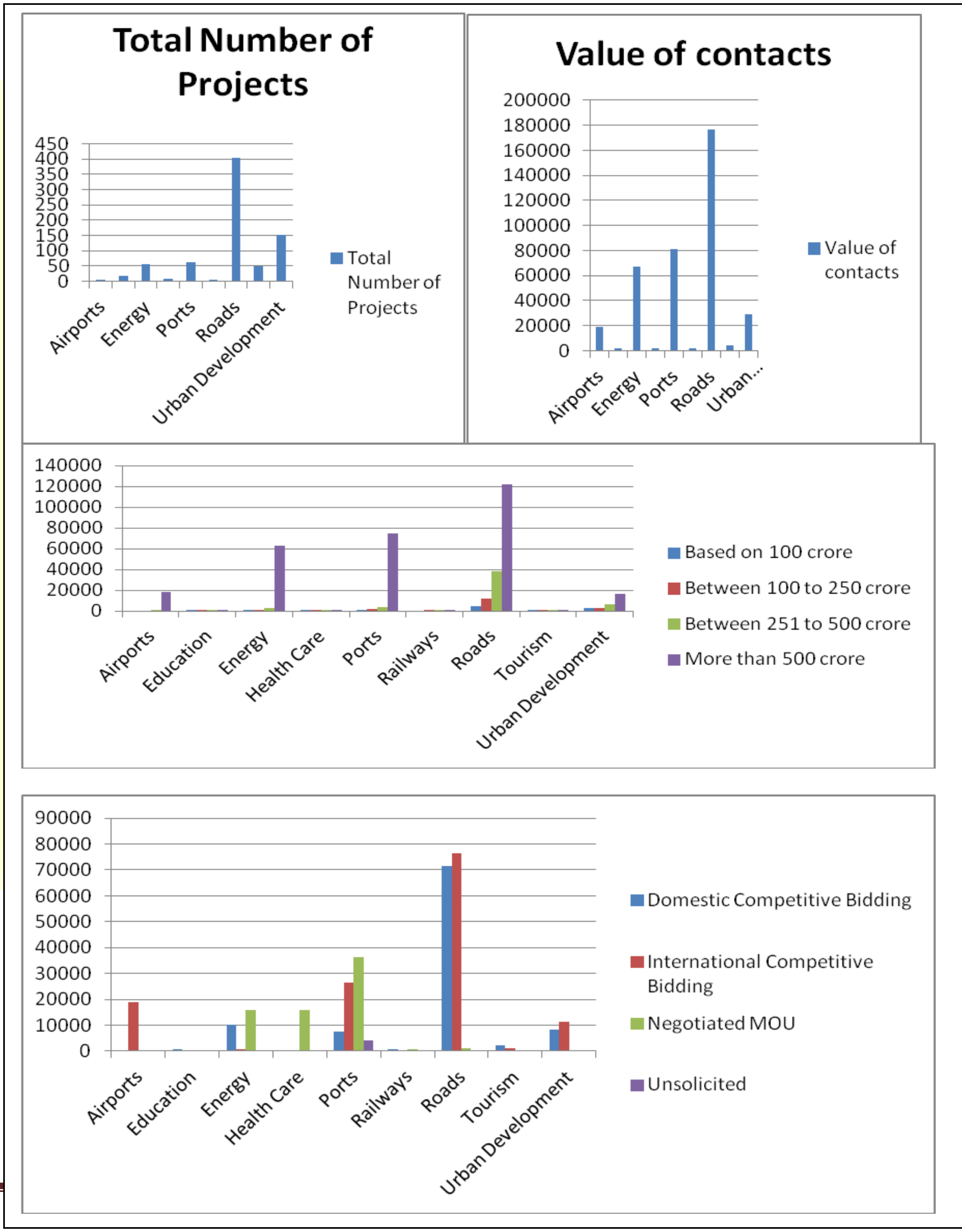
1) **EVOLUTION OF PPPs:**

The idea of PPP is not new. In 19^{th} century there were some major PPP projects like The Great Indian Peninsular Railway Company (1853) and Tramway services by The Bombay Tramway Company in Mumbai (1874). Some PPPs existed in Power Generation and distribution in Mumbai and Kolkata in early 20^{th} century. According to a World Bank Study of 13 states in 2005 only 86 projects worth Rs. 340 billion were awarded till 2004. Out of them most of the projects were in bridges and road sector and most of the large scale private financing was limited to Vishakhapatnam and Tripura states of India. It was only after 2006 that favorable and innovative policy reforms were introduced and the number of PPP projects increased sharply from 450 projects costing Rs 2,242 billion in November, 2009 to 758 PPP projects costing Rs. 3,833 billion in April. 2013.

2) **CURRENT STATUS OF PPP IN INDIA**

The road projects are maximum in number and account for 53.4% of the total number of projects and 46% in total value as they involve small investment. Ports projects are less in number and make up only 8% of the total number of projects but due to heavy investment, contribute 21% of total value. There is untapped potential of PPPs in health care and education. State wise, Karnataka, Andhra Pradesh, and Madhya Pradesh are the leading users of PPPs with 104, 96 and 86 projects respectively. Most of the contracts have been of the BOT/BOOT type (either toll or annuity payment models) or its variants. In most of the projects, the service providers were selected through competitively bidding with 83.9% of the total investment coming using national competitive bidding and 11% of the investment coming from international competitive bidding. In some cases the service providers were selected using negotiated Memorandum of Understandings primarily from the railways, ports, and health care and energy projects. Most of the projects are worth more than Rs 500 Crores.

Figure 1: Analysis of PPP projects in India in terms of sectors, value and allotment process



3) **STATE EXPERIENCE:**

Each state has its own framework of infrastructure development as each state has the right to disseminate legislations in the areas covered in the state list of the Constitution of India. Certain states have taken significant steps to push PPP activity. They have created lawful frameworks for partaking of private sector in the state. The top five states account for 58.3% of total value of PPP in India. The key sectors being targeted for PPP format by leading states are roads, ports and airports. Maharashtra, Karnataka and Gujarat average approximately 11% of the total value of PPP of India. In Andhra Pradesh, prominent projects undertaken include development of HITEC City in Hyderabad, Rajiv Gandhi International Airport, Krishnapatnam Port, 108 Mobile Emergency Response Service and 104 Mobile Health Service, Hyderabad International Convention Center & an Integrated Township. Hyderabad's metro rail project, four Greenfield airports, bridge across River Godavari at Rajahmundry, Bus Rapid Transit System in Hyderabad and Vijayawada, Machilipatnam Port at Machilipatnam and Diagnostic centres in hospitals at Vishakhapatnam, Kurnool, Kakinada and Warangal are in pipeline. These projects receive institutional support from Andhra Pradesh Industrial Infrastructure Corporation (APIIC) and Infrastructure Corporation of Andhra Pradesh (INCAP). In Karnataka, the major PPP project undertaken is The "Greenfield" Bangalore International Airport by State Infrastructure Development Department. In state of Gujarat, Vadodra Halo1 Toll Road is operational and Gujarat's Dahej LNG Terminal is in pipeline. In state of Jharkhand National Games Housing Complex project has been completed and some projects for development of colleges and hospitals are in pipeline under Jharkhand Industrial Policy, 2011. Also in state of Chhattisgarh, the project of development of Sports City in Naya Raipur is in pipeline under Industrial Policy for the period of 2009–2014.

4) **PPP AND ECONOMIC GROWTH**

The objective of this section is to highlight how PPPs can propel and fuel economic growth. Indian surging economy has triggered an urban expansion that is seeing new towns and cities emerge across the country. Urban population is projected to rise to 700 million in 2020 and the number of cities will reach close to 70 in the next decade. There will also be six megacities with a population of 10 million — more than in the whole of Europe. Owing to this fact, GOI is now focusing on bringing the infrastructure necessary to cope with these sweeping demographic shifts and the huge infrastructure deficit. While much of the momentum for this urban transformation comes from government, the private sector has an important role to play, particularly in light of a growth rate that has recently slowed to 5.3%.The fundamentals that make India attractive to investors remain intact including, high impending of the domestic market, a rising middle class, cost competitiveness etc. A number of investment-based models of private public partnerships (PPP) that can implement the massive projects are the needed to address these rising changes and demands. PPP is being successfully implemented in India but there is no universally applicable model.

5) Government initiatives for encouraging PPP

Several additional measures have been taken by GOI for facilitating PPPs. They include:

1. **Secretariat for Infrastructure in Planning Commission**:

A high level committee set up for financing infrastructure projects and making recommendations relating to financing of projected investment of Rs. 40, 99, 240 crores during the 12th five year plan period of 2012-17. It initiates policies for creation of time bound infrastructure facilities in accordance with the international standards and encourage PPPs.

1. **Cabinet Committee on Infrastructure (CCI):**

GOI constituted Committee on Infrastructure (CCI) on August 31, 2004, Chaired by Prime Minister at Ministry of Finance-Department of Economic Affairs. It was replaced by Cabinet Committee on Infrastructure on July 6, 2009. It approves infrastructure projects, reviews policies and monitors implementation of infrastructure projects. http://www.infrastructure.gov.in/

2. **Public Private Partnership Appraisal Committee:**

Public Private Partnership Appraisal Committee has been set up to streamline approval mechanism for PPPs in the central sector (PPPAC) in January 2006. It has granted approval to 135 projects with an estimated cost of Rs. 137025.62 crores.

3. **Publications: GOI has published several key documents on**

- Rail Road Connectivity of Major Ports;
- Guidelines for Financial Support to Public Private Partnerships in Infrastructure; Guidelines on Formulation, Appraisal and Approval of Public Private Partnership Projects;

- Scheme for Financing Infrastructure Projects through the India Infrastructure Finance Company;
- Financing of the National Highway Development Programme (NHDP), and
- Model Concession Agreement for PPP In Highways, etc (pppinindia.com)

4. **Gujarat Viability Gap Fund Scheme 2005 (VGF scheme)**:

The Gujarat Industrial Development Board (GIDB) is given lump sum amount to financially support the PPP projects. The State Governments shall approach this fund to financially support the projects up to 20% of the cost of the project. This scheme is applicable to PPP projects where private sector is selected through competitive public bidding, concession agreement has been entered into, user charges / pre determined tariff is levied and the project is not ongoing. Brown field projects are also eligible for financial support. The executive Committee of GIDB is the authority to approve and release the funds. http://www.gidb.org

5. **India Infrastructure Finance Company Limited (IIFCL):**

It is a scheme for Financing Viable Infrastructure Projects through a Special Purpose Vehicle**.** It was established in January 2006 as a wholly owned Government of India company and commenced its operations from April 2006. It provides long term financial assistance to various viable infrastructure projects in the country. Its authorized capital is Rs. 5,000 crore and the Paid-Up capital is Rs. 2,900 crore. IIFCL is authorized to raise long term debt from the domestic market, from bilateral and multilateral institutions and in foreign currency by means of external commercial borrowings. The borrowings of the company will be backed by sovereign guarantee.

7. **India Infrastructure Project Development Fund (IIPDF):**

IIPDF provides financial support to States and Central Ministries for Project development with initial contribution of Rs 100 Cr. Its scheme and guidelines are prepared by Ministry of Finance. It is a revolving fund i.e. it would get replenished by the success fee earned from successfully bid projects. However, if required, it can be supplemented through budget support. The IIPDF would assist up to 75% of the project development expenses. IIPDF ordinarily gives assistance in the form of interest free loan. After completion of the process of bidding, the project development expenditure would be recovered from the successful bidder.

8. **National PPP Capacity Building Programme:**

The National PPP Capacity Building Programme started in December 2010 by the Union Finance Minister (FM) with the objective of training approximately10, 000 senior and middle-level government officials in a period of next 3 years. The objective of training is to improve PPP managing capacity among government officials across various infrastructure sectors in these States. They will be provided with training material organized into five distinct course offerings. The training material can also be used by the trainees for subsequent revisions and reference. The aim of these courses is to increase awareness, obtain better understanding and proficiency with regard to application of PPP skills.

6) Challenges faced by PPP in India:

PPP in India has to overcome a number of obstacles:

1) Lack of Regulatory environment

There is no self-governing PPP regulator. Presence of a regulatory authority is essential to attract more global private funding of the infrastructure.

2) **Lack of information**

The existing database does not give comprehensive information regarding the projects to be awarded, project documents including feasibility reports, concession agreements and status of different clearances and land acquisitions.

3) **Project development**

Many project development activities like comprehensive feasibility study, land acquisition, clearances from environment/forest departments' etc are not given ample significance by the public partners. This leads to reduced attention by the private sector.

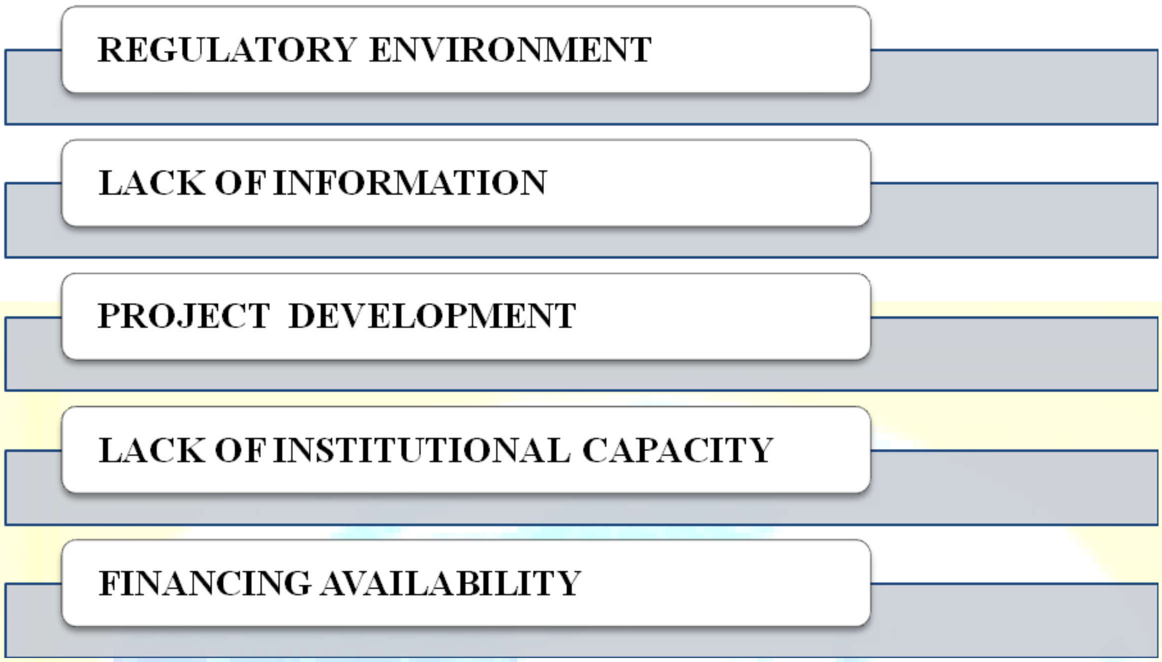
4) **Lack of institutional capacity**

The institutional capacity to manage large and complex projects at various Central ministries and at state and local bodies' level makes the task of getting clearances cumbersome.

5) **Financing availability**

The private sector depends upon commercial banks to raise debt for the PPP projects. Due to sectoral exposure limits and leverage of large Indian Infrastructure companies funding the PPP projects is getting difficult.

Figure 2: Challenges faced by PPP in India



SECTION V: RECOMMENDATIONS

Based on the analysis certain recommendations have been made:

- **An independent institutional structure for handling of PPP program:**

  To meet the PPP targets, an independent institution should be set up to act as nodal agency with the responsibility of creation of PPP data base, best practices, and model documents for all sectors and coordination with all departments.

- **Dissemination of information on PPPs:**

  There exists a need for the creation of specific information policy for PPPs wherein all bid documents, feasibility reports and current status of the projects are published on a dedicated contract portal. The international policy models such as Partnerships Victoria (Australia) can be referred to in this case.

- **Role of consultants:**

  Technical and Transaction advisors should be appointed carefully. Generally the consultant fee is a small proportion of the project cost and the value addition by a good consultant could be much higher. For the success of the project, consultant's quality is more critical as compared to the cost implications. Consultant should be selected either on the basis of quality or quality-cum-cost with higher weight age to quality.

- **Project development activities:**

  The authorities should take all approvals and feasibility reports with technical scope of work before entering into an agreement. The lack of project preparation by the development authorities like inaccurate definition of scope and utility, delays in land acquisition, environment clearance, no public consultations etc. may result in poor bid response and also delays in execution and commencement of construction, compromises on the design and quality to reduce costs or attempt to change scope resulting in abnormal increase in project cost leading to disputes.

- **Optimal allocation of risks, authority and accountability between private and public sector:**

  There is a need for effective distribution of financial and operational responsibility, overheads and risks between the public and private sector. In case public authorities are not able to fulfill their responsibilities like as land acquisition, environmental clearance, state support etc., the project gets delayed. In cases where government is not able to fulfill its part, the private sector suffers losses due to delay. There is no appropriate framework for compensation to private sector.

- **Criteria used for Selection of private sector partner:**

  To select the Private sector partner there is excessive focus on highest financial offer. The authorities should use other selection methods also like technical skills, a competitive dialogue process etc.

- **Alternative sources of Finance:**

  GOI should develop suitable policy framework to make funds available for infrastructure projects from corporate Bond Market, Pension funds, Insurance Companies or Private equity Investment. Zhang (2005)

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