

Public – Private Partnership for Infrastructural Growth

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ABSTRACT:

The Infrastructural projects are supposed to be giant projects which Government alone can afford to build or construct especially because such projects seldom offer returns proportionate to the investment involved in it. The Government's purpose of building or constructing infrastructure project is quite different from what a private investor / industrialist may have. The creation of employment, and accessibility to markets and services is directly related to the economic growth of the country which is the purpose of existence of the Government authority. The infrastructure projects generate employment and at the same time also gives easy access to markets and services. The access to markets and services again gives rise to generation of employment. The communication services, including telecommunication, marine and air transport, solving energy problems and good roads are the requirement of public as it leads to the expansion of business and hence it becomes duty of the Government to provide the same. Hence Government seldom verifies the infrastructure projects from commercial point of view, but for a private investor / industrialist, commercial viability is the first parameter in taking the decision before launching any project, infrastructural or otherwise. It is beyond doubt that the infrastructure in India is very poor compared to not only developed countries but also in comparison with developing countries and certain under developed countries.

Key Words: PPP, IPP, Infrastructure, Commercial Viability, Economic Growth, Generation of Employment, Private Investors, Incentives, Exemptions

INTRODUCTION:

The Public Private Partnership which is popularly known as PPP or 3P suggests a partnership between the Government and a Private Entrepreneur which is looked by Government as a venture necessary for Economic Growth of the nation and by the private entrepreneur as an opportunity to earn handsome dividend by partnering with the Government, in may be otherwise financially non-viable project. This method of development was found out by the Government during 1990s when Government was toying with their new idea of liberalization. This relationship is defined by the Government of India as: *"an arrangement between a government / statutory entity / government owned entity on one side and a private sector entity on the other, for the provision of public assets and/or public services, through investments being made and/or management being undertaken by the private sector entity, for a specified period of time, where there is well defined allocation of risk between the private sector and the public entity and the private entity receives performance*

linked payments that conform (or are benchmarked) to specified and pre-determined performance standards, measurable by the public entity or its representative".

(Source: https://en.wikipedia.org/wiki/Public%E2%80%93private_partnerships_in_India)

The PPP Knowledge Lab defines a PPP as "a long-term contract between a **private** party and a government entity, for providing a **public** asset or service, in which the **private** party bears significant risk and management responsibility, and remuneration is linked to performance".

(Source: <https://ppp.worldbank.org/public-private-partnership/overview/what-are-public-private-partnerships>)

The Public Private Partnership also includes independent power producers (IPPs). They are the entities who operate facility to generate electricity which is then sold to a utility. It may also be sold to the Government authorities or to the actual consumer of electricity. These private generators of electricity may operate in the form of cooperatives and are non-energy industrial concerns. The job of these generators is to fulfil the needs of electricity users by supplying them the excess energy left with them after their own consumption. It should be noted that the 3P infrastructure projects miserably failed in India in the water and sanitation sectors.

Following are the different types of PPP arrangements:

- Utility Restructuring, Corporatization and Decentralization
- Civil Works and Service Contracts
- Management and Operating Agreements
- Leases
- Concessions, Build-Operate-Transfer (BOT), Design-Build-Operate (DBO)
- Joint Ventures and Partial Divestiture of Public Assets Full Divestiture
- Full Divestiture
- Contract Plans and Performance Contracts

The following table shows PPP Investments in Infra (\$ Billion):

PPP INVESTMENTS IN INFRA (\$ Billion)			
Period	Approx. infra sector investments	Estimated PPP %	Estimated PPP investments
10th Plan	222	25	56
11th Plan (Estimated)	500	37	185
12th Plan (Projection)	1,000	50	500

(Source: https://www.business-standard.com/article/opinion/vinayak-chatterjee-ppp-in-india-the-story-so-far-112051400022_1.html)

OBJECTIVES OF THE STUDY:

1. To study the various steps taken by Government to boost Public – Private Partnership for Infrastructural Growth.
2. To study challenges faced by a Government in Public – Private Partnership for Infrastructural Growth.
3. To study challenges faced by a Private Entrepreneurs in Public – Private Partnership for Infrastructural Growth.
4. To study the Issues Identified at Various Stages of a PPP Project.

REVIEW OF LITERATURE:

According to Working Paper, NO: 564 ‘An Analysis of Public-Private Partnerships in Infrastructure of Provision of Public Goods through E-Governance in India’, Murali Patibandla Professor of Strategy Area Indian Institute of Management, Bangalore, states that: According to a World Bank report, India was the largest market for PPP projects in the developing countries of the world. India alone accounted for over half of the total investments in new PPP projects in developing countries in 2011, when it implemented 43 projects which attracted total investment of \$20 billion (Business Standard, 2013). The second phase where the Indian government has started investing is the operations. This includes incorporating the PPP model in ICT for Development issues like e-government projects. This article discusses in detail two successful e-government projects that are based on the PPP model.

The enforcement of PPP contracts varied based on the relationship between the parties which functioned in the governance structures. For example, the litigation after the failure of a contract in markets is more stringent as compared to hierarchies where the matter is settled internally only. This difference is because the parties involved in a market do not have long term relationship whereas the parties in an organisation (hierarchy) have long-term coordination. On similar lines, IIMB-WP N0. 564 16 in PPP model the engagement between the government and the private party is based on clear Service Level Agreements (SLAs) which are outcome-driven allowing both the parties to decide, agree and contract on deliverables. This is similar to an outsourcing model where the contractual tenure given to a private firm is long term approximately 8 to 10 years at the end of which either the contract is renewed or the ownership is transferred to the principal. The terms of the SLA requires the IT firm to provide services for which payment is done periodically in fixed amounts. If the agent breaches the contract, the principal can penalise based on agreed norms. Also, the involvement of the private party in the transaction spreads the risk for the government in the sense that assets are now used collaboratively by both the parties. For example, in the BOT (Build, Operate and Transfer) model of PPP, the private party bears the cost of building and operationalizing the ICT project and transfers it to the government who invests

on maintenance and use. Here, the government can ask the private party to set the computer kiosks in various districts of a state in India and operate them using their own agents. As a result, the government is excused from investing in specific assets such as technology hardware and software and human assets such as kiosk operators. Thus, asset specificity decreases. Uncertainty in PPP model can arise due to contractual specification as well as information asymmetry. If the contract between the government and the private party is not specified properly, there can be situation of ambiguity and residual rights (Grossman, Hart & Moore, 1986). Thus, this situation arising due to asset ownership under incomplete contracts can be minimized using integration. Integration between public bureau and private firm is essential in proper specification of the contract and hence reducing uncertainty between both the parties.

RESEARCH METHODOLOGY:

The proposed study mainly is descriptive in nature. The study is based on secondary data collected from reputed articles of research journals, books, and prominent sites, documents of various ministries / departments and organizations in order to analyze and understand the Public – Private Partnership for Infrastructural Growth

FINDINGS:

1. The Government in its endeavor to give necessary boost to the infrastructure through Public Private Partnership, has undertaken the following steps:
 - a. Public Private Partnership Appraisal Committee (PPPAC) is constituted to appraise all 3P projects initiated by the Central Government.
 - b. The Coordination of 3P projects is given to Department of Economic Affairs (which is a part of Finance Ministry of Central Government) which has issued guidelines for conceptualizing and for sanctioning 3P projects.
 - c. The financial support in the form of capital grant is given for project construction to the tune of 20% of the total project cost, via Viability Gap Funding.
 - d. In 2007, Government of India launched India Infrastructure Finance Company Limited (IIFCL) which supports up to 75% of the project development expenses.
 - e. The PPP Cell has published various guidelines and a ‘PPP Toolkit’ for helping project preparation and to speed up the process of taking decisions.
 - f. The Government helps in private / public land acquisition, and if required it uses the right of eminent domain.
 - g. Various tax concessions are granted to 3P projects by the Government.

- h. The Government stands as loan guarantor in case if the private investor needs financial assistance from the banks or financial institutions.
- i. The Government also stands as a guarantor against any fluctuation in the rates of foreign exchange as the private investor is going to earn only in the local currency.
- j. In certain high risk projects, Government gives an assurance of revenue up to certain percentage of projected income.
- k. Following are the various Administrative Reforms adopted:
 - i. Exemption of duty on imports of road construction equipment.
 - ii. Procurement well defined for avoiding hassles.
 - iii. Speedy and equitable dispute resolution mechanism.
 - iv. All expenses in acquiring land and all the expenses on pre-construction activities are borne by the Government.
 - v. 100% Direct Foreign Investment is allowed in 3P projects.

2. The Government faces various challenges on account of Public – Private Partnership, like:

- a. The negotiations between Government and prospective private investor and then negotiations between the PPP and the private owners of land results in wastage of valuable time, which delays the project and increases the cost.
- b. The Green Tribunal takes its own time to give green signal to the infrastructure project under PPP.
- c. The Court cases filed by social activists stalls the project.
- d. Sometimes there is a great confusion in evaluation criteria of Government and thereby its objectives.
- e. There is always a high risk in relying upon private players.
- f. There is dearth of expertise on the part of private players.
- g. In PPP, as two parties are involved, there is difficulty in fixing accountability.
- h. The Government guidelines and procedures are not fully adopted by the private players.
- i. The projects, sometimes do not reach completion stage.

3. The Private Investor faces challenges on account of Public – Private Partnership, like:

- a. Delay in Go Ahead at every stage of the project increases the cost of the project.
- b. Corruption by Government officers in the high position creates unnecessary technical hurdles.
- c. The penalty clause is arbitrarily invoked and ultimately private investor loses not only profit, but also big chunk of capital.

- d. The retention money, equal to profit is retained for a long period of time and full refund of this money becomes very difficult even after years of completion of projects.
4. Detailed Project Report is the first problem that arises while seeking the bids for the PPP project. If DPR problem is not resolved, it may create hurdles throughout the stage of implementation. While conducting engineering investigation, and while the DPR is being prepared, one needs permission from different authorities conducting site investigation studies. The topographical study done earlier may not be accurate. Also the initial study and the present study of the land use may show vast differences. The markings put on the site may be tempered with or moved by the local inhabitants. Any impatient progress / decision in submitting DPR may lead to huge problems and delay at the implementation stage.
5. During the Execution stage, delay may be caused due to land acquisition, due to inadequate compensation or because of social protests. The value of land is decided in advance and post implementation the value of land increases, which leads to protests from land owners. The best project management techniques are sometimes not implemented and because of lack of value engineering, project gets delayed. There are also spot changes in the work which is known as 'Change of Scope' which results in additional formalities and procedures and fresh allocation of resources and material. All of a sudden, the material supply becomes inadequate due to flaws in chain management which again delays the project.

CONCLUSIONS AND SUGGESTIONS:

The Government needs to ascertain those factors which would help accelerate development and promotion of 3P projects. This will help in better, effective and speedy implementation of the infrastructure projects. Building up financial capacity, overhauling of present processes, overhauling of current mechanism and methods, changes in provisions of law to facilitate fast decision making, changes in policies, and changes in the mind frame of the people by effecting socio-cultural changes etc. can prove game changers in effective implementation of PPP projects. It is suggested that detailed investigation and analysis of practical situation and problems should be conducted to find out more influential factors and effective implementing processes to make achievements adorable. There should be clear understanding of the proposed project and there should be prudent and equitable distribution of risks and rewards. The key factors like land acquisition and permission of Green tribunal should be dealt with before the bids for project are invited. At the planning stage, no mistakes should be made as focusing to save on small cost may become a big risk at the implementation stage. The integration between construction and operation is of paramount importance. Delayed clearance is one thing which should be taken care of, throughout the stage of implementation of the project.

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