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A Review on Present Status of Public-Private Partnership (PPP) Projects in India

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ABSTRACT

This paper introduce to the present status of PPP projects in India. The Government India, now a day, is much concerned about infrastructure development. To fulfill these requirements, Government is taking contribution of private sector in huge way. This is also because to boost up the speed of the infrastructure development, the government is needed manpower and investment. The private sector is having high potential to provide both the important constraints in infrastructure development. Moreover this paper also focuses on the aspect of government of India for infrastructure development in current scenario.

I. INTRODUCTION

The Public-private partnership (PPP) is a financing model for a government infrastructure project which is meant to serve to people of the country like a new transportation system, power plant or airport. The public partner is expressed as the government at a municipal, state and/or national level. The private partner may be expressed as private business firm, group of businesses with a specific area of expertise or public corporation. PPP is an immense term that can be applicable to anything from an uncomplicated, short time contract (with or without capital investment) to a big contract that consists of planning, building, application, financing, and maintenance. PPP arrangements are appropriate for big projects that are needed expert manpower and a sound stake to get started. They are also useful in such countries where it is require to the state to legally own any infrastructure that serves the public.

II. COMMON FORMS OF THE PPP MODEL IN INDIA

- Several models of PPP financing are described by which partners are culpable for owning and maintaining resources at different stages of the project. Some of the examples of PPP models are as:

- Operation & Maintenance Contract (O & M): In these types of contracts, the private-sector partner operates and maintains a publicly-owned resource for a certain period of time at a fixed cost. The ownership of the asset is confined by public sector partner.

- ***Design-Build (DB):*** Under this contract, the private-sector partner is responsible for designing and building the infrastructure as per demanded specifications of the public-sector partner at often for a fixed fee. The private-sector partner assumes all risks likely to come. The ownership of the asset is confined by public sector partner.

- ***Design-Build-Finance-Operate (DBFO):*** In these contracts the private-sector partner takes the responsibility of designing, financing and building a new infrastructure and operates/maintains it under concession period. The private-sector partner transfers the ownership of the asset to the public-sector partner after completion of period of lease.

- ***Build-Own-Operate (BO)***: These contracts consist of financing, building, ownership and operation of the infrastructure component by the private sector partner. The public-sector partner states all the restraints in the original agreement and through on-going regulatory authority.

- ***Build-Own-Operate-Transfer (BOO)***: This is the most common PPP contract in which the private-sector partner is granted authority of financing, designing, building and operating an infrastructure component (and to charge user fees) for a specific period of time. The ownership is transferred back to the public-sector partner after concession period.

- ***Buy-Build-Operate (BBO):*** This is the PPP model in which a publicly-owned asset is legally transferred to a private-sector partner for an assigned period of time.

- ***Build-operate-lease-transfer (BOL):*** In BOLT model 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. The asset transfers to the public partner after completion of lease period.

- Operation License: In OL PPP model the private-sector partner is allotted a license or other formulation of legal permission to operate a public service, usually for a specified period.

- Finance Only: The private-sector partner, usually a financial services company, finances the infrastructure project at an interest for use of fund.

III. PPP HAS GREAT POTENTIAL IN A COUNTRY LIKE INDIA

Disregarding the various impediments, public-private partnership in infrastructure holds great potential in a country like India. A longstanding viable infrastructure plan needs to be developed that will generate an environment for increased private sector participation and investment for faster electrocution of the projects.

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

Developing infrastructure is a stipulation for the economic growth of a country. Day by day increasing call for good quality infrastructure can only be fulfilled by huge investment, practiced project management and technological progression. To carry out these requirements, governments are employing the potentialities of the private sector in a large way. Public-private partnerships have become the most demanding mode for the construction and operation of infrastructure projects, in both i.e. developed and in developing countries. As most governments in going forth economies having challenge of financial and capacity restraints, PPP give a way for them to fulfill the demand of infrastructure investment, the Federation of Indian Chambers of Commerce and Industry (FICCI) says in a special report made available to Project monitor. PPP not only provides in additional financial investment but also enables both public and private sectors to get together at the table of their own experiences and potencies, resulting in effective development of infrastructure and service bringing. The PPP models, however, comes with various cone of challenges since appealing private investment is not easy. The private sector not only requires an investor-friendly regulatory environment, but also good returns on invested capital. The Government of India, therefore, has been looking for the development of modifying modes and activities to boost up private sector investments in the country through the PPP format.

The National Democratic Alliance (NDA) government has creating a good regulatory environment to the public-private partnership (PPP) projects across all infrastructure areas such as power distribution, railways, roads, housing, mining, aviation and even school education and health services.

PPPs colligate the bringing of public services by private entities, and are granted 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 preferred by governments all over the world to constitute a deficit in investment expending.

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 spending and regenerated. In quest of this announcement, a Committee on Revisiting & Revitalizing the PPP model of Infrastructure Development was established 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:

- Constitution of 3P India.
- Type of project based risk allocation formula for various project participants.
- Setting out the independent regulating agencies.
- A rectification in the bar of corruption acts to improve the errors of judgment and to identify the will full corrupt practices.
- Use the PPP model for airport, port and railway projects.
- Banks and other financial institutions are to be allowed to issue zero-coupon bond.
- The number of banks in a syndicate is to be limited.
- Banks are to be developed to improved potentialities for risk assessment and evaluation.
- Specific guidelines for encashment of bank guarantee.
- To provide for monetization of accomplished projects.
- Made up possible alternatives to restart baffled 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

Establishment of an Infrastructure PPP Project Review Committee (IPRC) consists of an expert in finance and economics, law, and at least one related technocrat with not less than 15 Years' experience.

Establishment of an Infrastructure PPP Adjudication Tribunal (IPAT) directed by a former Supreme Court/ High Court Judge with at a minimum of one financial and technical 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 construction, operational, or in stages of at least construction/execution is impendent) according to the data available till August 2012.

PPP scenario in India, road projects 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 substantial resource deficits, and a need for effective bringing of services.

There is also a need to target the social sectors (mainly education and health), which presently accounts for only 3.7 per cent of PPP projects in India.

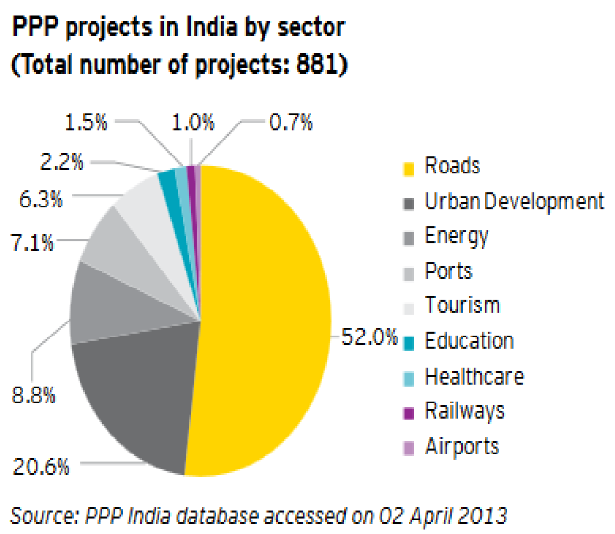

Figure 1. Current Status

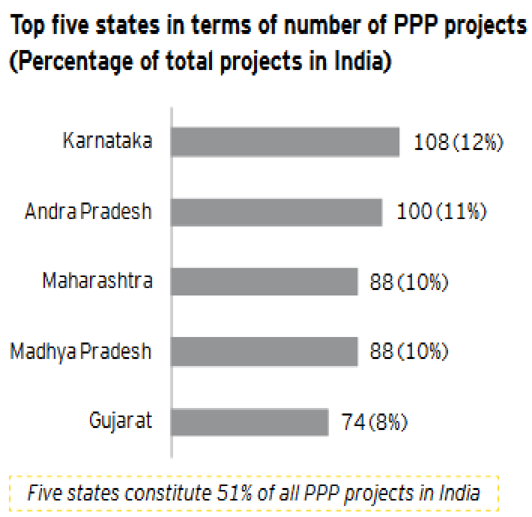

Figure 2. Major States

The Constitution of India has defined the subjects on which the Centre and the States can legislate and frame policies. The important infrastructure sectors such as railways, national highways, airports and major ports are contents of Centre and, therefore, the Central Government has been originating measures satisfy the increasing aspects of infrastructure in above areas. Apart from public sector projects, various PPP projects have also been granted, and in many cases, these PPP projects are in function. In the Central sector, a total of 65 PPP projects including an investment of Rs. 25,343 Cr. had been completed up to December 2009, 83 PPP projects with an investment of Rs.75,914 Cr. were currently under execution and another 160 PPP projects with an approximate investment of Rs. 1,84,807 Cr. were in the process. Completed projects: Up to December 2009, 39 PPP projects of national highways with an investment of Rs.13,698 Cr. and 23 PPP projects in the port sector with an investment of Rs. 5,762 Cr. have been completed. In the civil aviation sector, airports involving a total investment of Rs.5,883 Cr. 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 Government of India recognizes the worth of speeding up the infrastructure development through raised private sector's participation in order to rise up the country's slowing economy.

The Planning Commission has pictured that investment in infrastructure will approximately double to reach `55.7 trillion during the 12th 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 five year Plan.

VI. Role of Multilateral Agencies

The contributions of multilateral agencies, like Department for International Development, World Bank, and Asian Development Bank in infrastructure development play an important part in enhancing the investment environment and encouraging private sector participation.

There has been a change in the financing pattern of multilateral agencies from public sector infrastructure projects to projects having private sector participation. These institutions give importance to nature-friendly infrastructure projects.

Multilateral agencies supply capital and consultative back up to infrastructure projects. They act as an unchanging generator of investments for long-term and knowledge base with strong PPP experience. They cover technical assistance (TA) to the governments to assist them to bring PPPs to the mainstream at the Centre and state level through capacity building e.g. establishing PPP cells in various states. Year by year, they have bring forth with new means of providing capital support for infrastructure development, like 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, negotiation, skilled work, engagement with the private sector and capacity building. The Bank had also given capital support to India Infrastructure Finance Company Ltd. The World Bank making plans to improve the Mumbai suburban railway stations through construction of escalators, elevators and footbridges by an approximate investment of 1.1 billion. IFC, the private sector financing arm of World Bank, has established an India Infrastructure Fund that invests in a branched out function of project equity investments.

These agencies cater sponsorships on their mandate to encourage comprehensive growth and development through poverty assuagement. High specified level of social and environmental standards followed by these agencies sometimes act as a hindrance for the private sector to avail funding. Multilateral agencies follow some basic rules to enter a PPP contract, are as follows:

- The project should debar crowding out private investors through grant loans or by furnishing loans in commercially appealing sectors.
- It should have the highest specification of safeguard compliance and corporate governance
- It should support projects that increase clean technology and low carbon growth.

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

VIII. Conclusion

The 12th Five-Year Plan designates to attain a large infrastructure capital investment target through PPPs. Presently; PPP in infrastructure is at the critical point with initial euphoria around the PPP models slowing down. The private sector is pushing away from taking up new projects because of delay in clearance process, poorly specified contracts and red tape.

The government is needed to work on each level of PPP growth — planning, designing, contracting, financing and monitoring. New models for PPP are expected to be made to provide to the present challenging business climate. Unless project agencies are appositely endowed for effective and time-bound decision making, PPP agenda of the country is going to take time to grow and develop. There needs to be a clear contrast of the risks to be borne by public and private parties.

Regardless of many constrictions, PPP in infrastructure bears huge capacity in a country like India. Future vision sustainable infrastructure plan needs to be developed so that it could create an environment for enhanced private sector investments for swift execution of the projects. Collective efforts of the private as well as the public sector and modifying policy provisions may help in accomplishing the infrastructure PPP agenda of the government.

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