

## Public Private Partnership in India

*Mr. Shaikh Atteque-ur-Rehman, Research Scholar, Dr. Babasaheb Ambedkar Marathwada University, Aurangabad, India*

### Introduction:

A public private partnership (PPP) is an agreement between the government and private sector for the purpose of provisioning of public services or infrastructure. With a common vision in place, the public and private sector bring to the table their own experiences and strengths resulting in accomplishment of mutual objectives.

The Government of India (GoI) has been focusing on the development of enabling tools and activities to encourage private sector investments in the country through the PPP format. Private investments amounting to US\$150 billion is expected to bridge the infrastructure gap of US\$500 billion over the period 2007-2012. As a part of meeting this financing gap, the PPP model is increasingly been seen as a means of harnessing private sector investment and seeking operational efficiencies in the provision of public assets and services. The extent to which the GoI envisages a significant role played by PPP in improving the level and quality of economic and social infrastructure services is increasingly evident from the growing reliance on the PPP model in the recent past.

### Evolution of PPP:

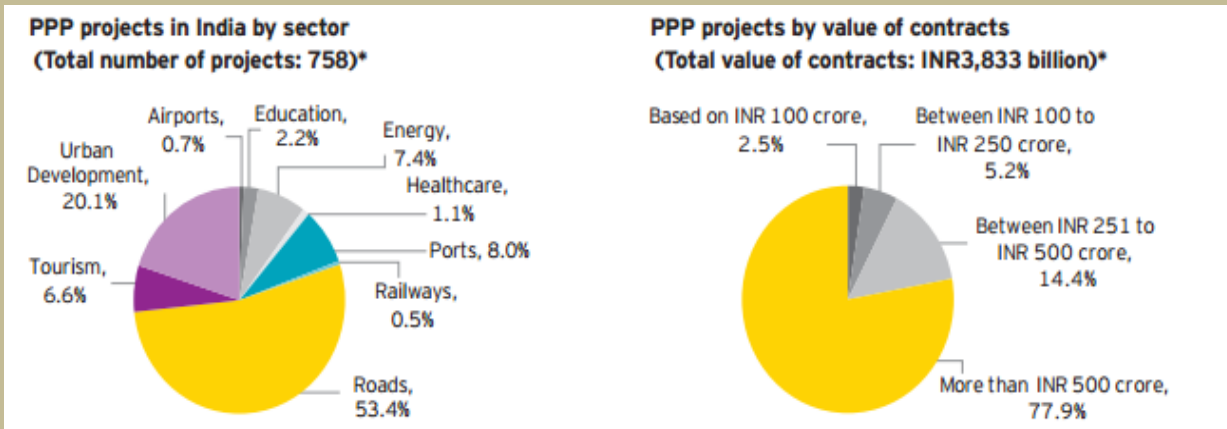
Phase I: 19th century and early 20th century	Phase II: 1991 - 2006	Phase III: After 2006
<p><i>Few notable PPPs could be found as early as 19th century :</i></p> <ul style="list-style-type: none"><li>• The Great Indian Peninsular Railway Company (1853)</li><li>• The Bombay Tramway Company's tramway services in Mumbai (1874)</li><li>• PPP models were there in power generation and distribution in Mumbai and Kolkata in</li><li>• the early 20th century</li></ul>	<ul style="list-style-type: none"><li>• Only 86 PPP projects worth INR340 billion were awarded till 2004 (World bank study of 13 states in 2005)</li><li>• Most of the projects were in bridges and roads sector</li><li>• Large-scale private financing has been limited to Vishakapatnam and Tirupur</li></ul>	<ul style="list-style-type: none"><li>• Increasing acceptance of PPP model due to favorable policy reforms and innovative PPP structures</li><li>• Growth in PPP from 450 projects costing INR2,242 billion in November, 2009 to 758 PPP projects costing INR3,833 billion in July 2011</li></ul>

*Source: PPP in India website*

### Current Status of PPPs in India:

The PPP India database (Department of Economic Affairs, Ministry of Finance) indicates that 758 PPP projects costing INR3,833 billion is awarded/underway status (i.e., in operational, construction al or in stages wherein at least construction/implementation is imminent). There exists significant untapped potential for the use of the PPP model in e-governance, health and education sectors.

Accelerating public private partnerships in India Karnataka, Andhra Pradesh and Madhya Pradesh are the leading states in terms of number and value of PPP projects. At the central level, the National Highway Authority of India (NHAI) is the leading user of the PPP model.



Source: PPP India database, As of July 31, 2011.

In order to select a provider/award a contract a competitive bidding process (either national or international) are followed. International competitive bidding projects accounted for 35% of total investment followed by domestic competitive bidding (26%).

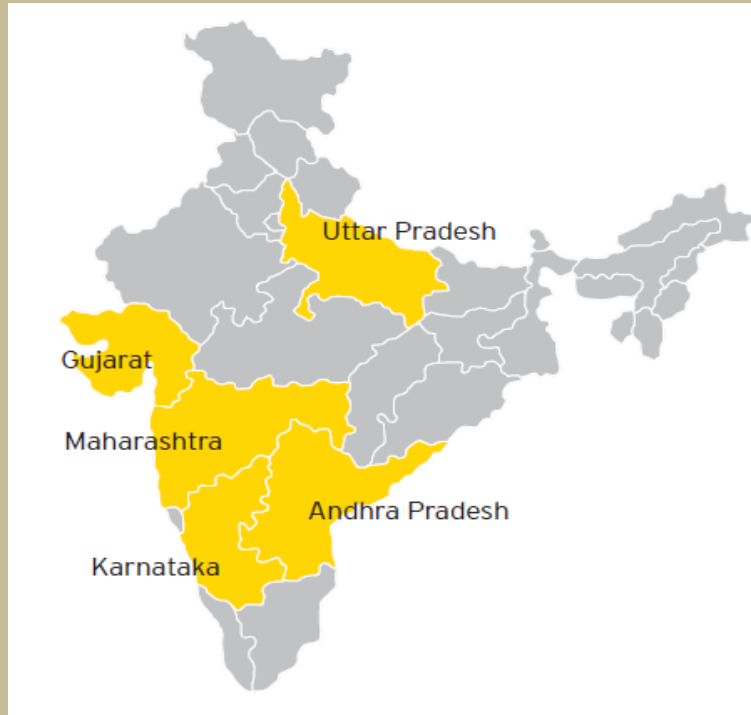
## Challenges in PPP in India

- **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 projects/studies to be awarded under PPP. An online data base, consisting of all the project documents including feasibility reports, concession agreements and status of various clearances and land acquisitions will be helpful to all bidders.
- **Project Development:**  
The project development activities such as, detailed feasibility study, and acquisition, environmental/forest clearances etc., are not given adequate importance by the concessioning authorities. The absence of adequate project development by authorities leads to reduced interest by the private sector, mispricing and many times 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 targets into projects.
- **Financing Availability:**  
The private sector is dependent upon commercial banks to raise debt for the PPP projects. With commercial banks reaching the sectoral exposure limits, and large Indian infrastructure companies being highly leveraged, funding the PPP projects is getting difficult.

While most of the above challenges are being worked upon by the GoI, the limited availability of sources of funding is the biggest bottleneck for the success of the PPP model.

### State-Level Experience:

The scenario in each state is different in the context of infrastructure development as each state has the right to promulgate legislations in the areas covered in the state list of the Constitution of India. However, certain states have taken substantial steps to encourage PPP activity. They have created legal frameworks for participation of private sector in the state.



### States of India and PPP:

- The top five states account for 58.3% of total value of PPP in India.
- The major sectors being targeted for PPP format by leading states are roads, ports and airports.
- Maharashtra, Karnataka and Gujarat average around 11% of the total value of PPP of the country.
- The bottom 10 states represent only 3.5% of the total value of PPP — indicating differences in attractiveness of investment by private sector.

#### ***Andhra Pradesh***

Andhra Pradesh is the leading state in terms of PPP projects by number of contracts (96) and value (INR669 billion).

It accounts for around 17.5% of the total value<sup>8</sup> of PPP contracts in India. The state has been drawing interest for PPP project investment in sectors such as urban development (29%), energy (24%), roads (22%), etc.

#### ***Karnataka***

According to Economic Survey 2010, Karnataka is among the top states in PPP in infrastructure projects. The state has 104 PPP projects of value INR447 billion<sup>10</sup>. As the knowledge hub of India, it has immense potential for

investment in the areas of information technology, biotechnology, textiles, steel and cement.

In 2008, the transportation sector bagged the maximum investment on a PPP basis in the state. However, the Government of Karnataka is now targeting new areas for PPP. It has tabled a Bill in Legislative Assembly to develop all ports in the state on a PPP basis and is formulating an integrated energy policy that aims to promote PPP projects in the energy sector.

#### *Gujarat*

With around 63 projects valued at INR396 billion, Gujarat is among the leading states witnessing high level of PPP activity especially in the sectors of ports and power. Gujarat's vision 2010 envisioned development of robust infrastructure in the state primarily through the PPP mode. Similar planning exercise has been undertaken for future projects in the form of "Blueprint for Infrastructure, Gujarat-2020." It envisages investment of INR120 trillion by 2020 across infrastructure sectors.

#### *Jharkhand*

Jharkhand witnessed relatively low PPP activity in infrastructure projects. The state has undertaken nine PPP contracts costing INR17 billion<sup>13</sup>. The BOT has been the preferred form of PPP type applicable in these projects.

The sectors such as urban development and roads have drawn more attention towards PPP in the state. The draft Jharkhand Industrial Policy, 2011 lays down significant emphasis on implementation of the concept of PPP in industrialization especially in infrastructure development/industrial area development/industrial park/ human resource development/service sector etc.

#### *Chhattisgarh*

The state of Chhattisgarh recorded relatively low PPP activity in infrastructure projects with only four PPP contracts costing INR8 billion. All the projects have been undertaken in the roads sector utilizing the BOT-Toll PPP type.

Chhattisgarh formulated an industrial policy for the period of 2009–2014 to focus on PPP. It allows the industrialist to form their own private industrial park for an area of up to 75 acres resulting in speedy acquisition of land. The state government actively supports the PPP method for development of tourism and infrastructure.

### **Key Industries/Sectors for PPP:**

- **Highways:** Road sector (405 projects valued at INR1,767 billion) accounts for 53% of the total number and 46% of the total value of PPP projects in India. The road network in India comprises national highways (65,569 km), state highways (1,30,000 km) and district/rural/urban road (31,40,000 km). The contracts have primarily been awarded by competitive bidding and are largely in the BOT format (toll or annuity basis).
- **Railways:** The railways sector just experienced 4 PPP contracts valued at INR15.7 billion. The projects have been contracted either by domestic competitive bidding or through negotiated MOUs. Due to the large size of the projects, the PPP projects in railways have to be supplementary or an extension to an existing large railway network.

The recent PPP data indicates around nine projects being contracted so far in Gujarat (4), Orissa (2), Haryana (1), Andhra Pradesh (1) and Karnataka (1). The nine projects have BOT (or its variants) format (including one on DBFOT) PPP as the preferred BOT model. The INR9 billion metro links from Delhi Metro —from Sikanderpur to NH 8, Gurgaon has the highest value of PPP railway contract so far.

The PPP experience in the railways sector has proven to be a mixed bag so far. In projects with clear cut demarcation of responsibilities, the model has proven successful such as in the case of last mile port-connectivity (For instance, last mile connectivity to Mundra port with Palanpur-Gandhidham railway line; and rail link from Bhadrak to new port at Dhamra in Orissa). On the other hand, the railways has been facing problems in using the PPP route for manufacturing rolling stock and locomotives (two mega railway projects — manufacture of Electric locomotives at Madhepura and Diesel Locomotives at Marhorwa have been on hold).

- **Power:** The GoI has taken several initiatives over the last few years to promote participation from private players in the power sector. With a total of 56 projects valued at INR672 billion, the energy sector accounts for 18% of the overall value of PPP contracts awarded in various sectors.

- **Power generation:** Power generation in India takes place primarily at the state level (46%) and Central level (31%), with private sector accounting for the rest. Participation of private players in the power sector is centered on thermal power generation, largely implemented through the BOO and BOOT models. Introduced in 2005, nine Ultra Mega Power Projects (UMPPs) are expected to rope in an investment of around US\$35–40 billion from the private sector. To increase investor confidence, UMPPs are awarded through competitive tariff-based bidding, and are being developed on a BOO basis.

- **Power transmission:** Since January 2011, transmission projects have also been awarded through competitive bidding under the BOO model. For instance, Sterlite has already been awarded three projects (amounting to US\$40 million) for building power transmission systems on a Build-Own-Operate-Maintain (“BOOM”) basis.

## Conclusion and Recommendations:

### *Policy recommendations:*

- Setting up independent institutional structure for handling PPP program
- Development of sector-specific regulatory mechanism
- Dissemination of Information on PPPs

### *Project development recommendations*

- Capacity building measures for the Government
- Role of consultants
- Project development activities
- Optimal allocation of risks, authority and accountability
- Selection of private sector partner.

*Financing recommendations*

- Developing corporate bond market
- Encouraging participation by pension funds and insurance companies
- Stimulating PE investments in infrastructure sector
- Hedging mechanism for external borrowings and investments

**Reference:**

1. Accelerating public private partnerships in India
2. <http://www.pppinindia.com/>
3. <http://en.wikipedia.org>