ABSTRACT

PPP is an agreement between the government and the private sector for the purpose of provisioning of public services or infrastructure with a common vision, the enterprise of both the sector is blended in a platform for accomplishment of mutual benefits. It is one of the alternatives in the hands of Govt to attract the investment when it cannot alone bear the burden infrastructure development. An attempt has been made in the study to examine its execution at different project level in real life situation in Indian context. Many states in India have resorted to PPPs for financing infrastructure and other public utility services. Projects in physical infrastructure sectors covered under this model include: airports, education, healthcare, ports, power, railways, road, tourism, urban development, culvert and bridges, telecommunication. An attempt has also been made to focus on the constraints that are revealed in course of our study over the implementation of PPP projects.

Keywords: Public Private Participation (PPP); Build-operate-transfer (BOT)

INTRODUCTION

Development sans destruction coupled with it was development with sustainability and commitment to the green environment. These three issues are at the back of any economic activity undertaken in the present century. It has necessitated undertaking the task of financing infrastructure such as water harvesting, land acquisition and reclamation, creation of connectivity in waterways, surface road, airport, electricity generation, creation of energy, coal mine gas, nuclear fuel, telecommunication, cyber service, hospital, education, tourism services, regeneration and restoration of ecology and sustainable green environment. Special economic zone(SEZ), water supply sewerage system, solid waste management system ; production, distribution and transmission of power, construction for preservation, warehousing, storage of agro products, perishable goods, fruits, vegetables, flowers, test facility and similar works.

Obviously to undertake an economic activity of a huge task would entail wider investment in the common property resources (CPR). These issues are recognised as development parameters under development of the World Development Report (WDR) constituting indicators of development of the World Bank. Health, education sectors contributing to the dignified living standards constituting human development indicators (HDI) as per the UNDP Human Development Report (HDR). Attaining multi dimension development indicators has been assigned to the state authorities of the member nations of the world bodies. Each sovereign is committed under its respective constitutional mandate.
to undertake efforts towards attaining those goals by allocating adequate amount of fiscal resources, public revenue towards these sectors in turn to achieve a world free of hunger, thirst, with equilibrium in growth momentum and growth with justice, equity and participation. This ensures world peace. Financing the infrastructure and mobilising required investment by state agencies alone would be a challenging task out of public budgetary support. Hence they look for alternative sources of finance and investment driven towards creation of new infrastructure avenues. There are international lending agencies that also provide long term investment finance towards this sector. World Bank, Asian Development Bank and other global agencies supplement the state efforts by lending money to the state authorities. When the state alone cannot bear the entire burden then start for weighing several alternative avenues attracting investment namely:

a) Sovereign state finance;

b) Aid from world multilateral lending agencies;

c) Fiscal budgetary support from state and public finance;

d) Foreign direct investment;

e) Public private partnership (PPP) model.

OBJECTIVE OF THE RESEARCH

Taking clue from the aforesaid discussion, we now concentrate on a new pattern of inviting private investment in financing infrastructure creation through a PPP model. The present research investigation has been undertaken with the following objectives:

1. To trace the history and evolution of PPP model;
2. To examine its execution at different project level in real life situation;
3. To focus on its challenges and constraints in financing the desired projects.

PPP is an agreement between the government and the private sector for the purpose of provisioning of public services or infrastructure with a common vision, the enterprise of both the sector is blended in a platform for accomplishment of mutual benefits.

PPP is an engagement between a government agency and a private or a non-governmental agency (NGA) in order to administer a public service (Goldenkoff RN 2001). It is an agreement where public sector bodies enter into long term contractual agreements in which private parties participate in, or provide support for, the provision of infrastructure, and a PPP project results in a contract for a private entity to deliver public infrastructure based services (Grimsey, Darrin and Lewis, Mervynk 2002). Canadian Council for public private partnership (2001) defined it as ‘a co-operative venture between the public and private sectors, built on the expertise of each partner that best meets clearly defined public needs through the appropriate allocation of resources, risks and resources of the government with those of private agency or a non-governmental agency(NGA) in order to deliver social goods(Skelcher 2005:347).

World bank(2003) said PPP refers to arrangements typically medium to long term, between the public and private sectors whereby part of the services or works that fall under the responsibilities of the public sector are provided by the private sector, with clear agreement on shared objectives for delivery of public infrastructure and public services.

OECD (2010) defines PPP as a long term agreement between the government and a private partner where the service delivery objectives of the governmental are aligned with the profit objectives of the private partner. When we examined the literature of the European Commission (2004) distinguishes between two types of PPP namely (a) one PPPs of a purely contractual nature where the partnership is based solely on contractual links and may fall within the scope of European Directives on public procurement; (b) PPPs of an institutional nature. These PPPs involve co-operation within a distinct
entity and may lead to the creation of an ad hoc entity held jointly by the public sector and the private sector or the control of a public entity by a private operator. While two authors Matteo Rossi, Renato Civitillo (2014) examine PPPs with a double point of view namely: (a) as organisational and financial arrangements; (b) as a language game. In the final analysis all the diverse school of thoughts have arrived on three essential elements of PPP such as:

a) Co-operation of durability because collaboration cannot take place only in short terms;

b) Risk sharing because both parties have to bear parts of the risk involved;

c) Parts must jointly realise something and both stand to gain from mutual effort.

Models of operation are as follows:

1. BOT= build, own, transfer
2. BOOT= build, own, operate, transfer
3. BOT= build, operate, transfer
4. ROT= rehabilitate, operate, transfer
5. DBFOT= design, build, finance, operate, transfer
6. Divestiture
7. Consortia financing
8. Securitisation
9. Tie ups
10. Take out financing
11. Viability gap funding
12. Credit default swaps (CDS)
13. Special purpose vehicle (SPV)
14. Delivery system
15. Lease
16. Joint venture (JV)
17. BOT= annuity

Initially the model was evolved in Europe and especially in Italy. It is essential a form of collaboration between the public and private sectors towards achieving the target of mobilising investment from private sector towards creating a public asset or project for creating public utilities or services to be enjoyed commonly by all inhabitants deriving benefit from the public investment. Such collaboration not necessarily be confined to a firm or commercial entity or a corporate entity but it may be in the shape of a process either. Our research enquiry discerns that PPP were prevalent in nineteenth century when the Great Indian Peninsular Railway Company in 1853; The Bombay Tramway Company’s tramway services in Bombay in 1874; electric power generations and distribution activities in Mumbai and Kolkata carried in PPP model in twelfth century. This concept was not unknown to India, when the Haripura Tripuri congress working committee had recommended the concept of mixed economy and duly accepted by Pundit Nehru’s government in 1948 by providing equal opportunities for both the segments, public and private, within their respective domain targeting commonality towards building a new emerging free nation after taking the reign from the British authorities. The philosophy of joint partnership on economic activities for free sovereign nation and guidance was provided by the celebrated JamshedjiNaoroji Tata when he set up Tatanagar steel city of Jamshedpur, private own civil
aviation and helicopter service in Mumbai. Then the laissez-faire force was tied up with regulating chain it cropped up mistrust between public and private resulting in wide resource gap and downsizing the growth and the nation witnessed adverse balance of payment(BOP); decline in GDP growth rate, fiscal deficit as a percentage of GDP; current account deficit(CAD)in external sector. This has created a vicious circle forcing the state authorities not to keep the private business magnets outside the economic pursuit of the government; paving the way for mutual respect and consultation leading to the aim of nation building. Thus prominent business house chiefs, corporate executives were nominated as a member in the Rajya Sabha allowing them to reap the benefit of their business acumen shipin legislative functions of the state. This effort helped build up mutual trust and formation of public private partnership in nation building exercise.

Execution and Review of PPP models

In this section we try to analyse the execution of PPP models in certain select projects in select territories where projects are undertaken on this model. Although this model was initiated since 2003 but it got momentum during the last five to seven years. Majority models were executed in sectors like telecommunication, power, ports and roads. According to the data base of the department of economic affairs, government of India till date 758 PPP projects where contract has been awarded and those are at different stages of construction or implementation, involving a total investment of about Rs 383;332.06 crore(PPP status Report July 31,2011). It is discernible from the report that road projects occupy the first place under PPP mode at 53.4% with 46 % by total value because of the small average size of projects. Ports account for 8 % of the total number of projects but they contribute huge amount at 21 % in terms of total value. The reason is obvious; construction of parts is wider and large in terms of monetary investment as compared to small average size of surface road projects.

Almost all contracts under our enquiry have been found to be BOT or BOOT type, either toll or annuity payments basis or close variation. National Highways Authority of India (NHAI) is leading user of PPPs.

There are several stages involved in inviting private contracting parties to the PPP contract:

- Inviting competitive bidding either national or international;
- Acceptance of contract award method;
- Determining the terms and conditions of contract;
- Determining the price at which contract is offered to private parties;
- The future monetary benefits assured to the private entities.

Many states in India have resorted to PPPs for financing infrastructure and other public utility services. Projects in physical infrastructure sectors covered under this model include: airports, education, healthcare, ports, power, railways, road, tourism, urban development, culvert and bridges, telecommunication

- In November 2013, a newly proposed regulatory authority for highways in India (RHAI) bill was drafted , which besides adjudicatory functions, seeks major role for regulator in contract management to lessen the litigation or arbitration cases to facilitate dispute resolution, dispute redressal machinery

- In the budget speech of 2013-14 the Govt. has decided to constitute a regulatory authority for the road sector given that the road construction sector has reached a certain level of maturity; but it faces challenges not envisaged earlier, including financial stress, enhanced construction risk and contract management issues, that are best addressed by an independent authority and regulator for road sector
The highway ministry observed in March 2014, the highway sector had witnessed steady growth in private sector participation until 2012-13 but subsequently financial stress and macro-economic condition kept players away investing in the road sector.

While the planning commission finalised a draft bill to set up a dispute resolution tribunal in PPP project. The central issue in the field of regulation pertains to; tall adjudication powers, poor quality of contractors performance, developing and enforcing service quality parameters.

The trade-off between advisory role, adjudicator role, regulatory role, promotional role to be shared or handled by multi agencies involved in the execution of PPP project.

Attracting private participation imbibes with it innovation with different structures and expedited the process of implementation. According to PPP status Report of government of India as on July 31, 2011, in terms of total value of contracts in cores of rupees, Andhra Pradesh occupies the first rank with Rs 66,918.3 crore; followed by Maharashtra Rs 45,592.0 crore; Karnataka Rs 44,658.9 crore; Gujarat Rs 39,637.2 crore; Uttar Pradesh Rs 26,595.8 crore. It signifies that infrastructure development finance is positively inverse towards south and western part of India.

In terms of total value of contracts in crores of rupees, roads occupy the first rank with Rs 17,6724.9 crore; followed by Ports Rs 81,038.2 crore; Energy Rs 67,244.6 crore; urban development Rs 29,475.0; Airports Rs 19,111.0 crore. During the last eleven years under PPP financing these five states are top priority areas of our national growth agenda. Purveying of additional public investment coupled with private resources and expertise are essential but not sufficient condition for achieving a double digit growth rate of the country.

In terms of total number of projects based on contract award method and the total project offered under PPP mode, roads occupy first rank with 405 numbers; followed by urban development 152; Ports 61; Energy 56; Tourism 50.

Another angle of analysis is the contract award method. There are four process available in this regard namely Domestic competitive bidding; International competitive bidding, negotiated MOU, unsolicited. Almost all the project under consideration were offered on competitively bid, either national or international competitive bidding; while negotiated one through MOU was offered primarily to Railway PPP project. In terms of contract award method, the international competitive bidding yielded 35 percent of total investment in India followed by domestic competitive bidding 26 percent.

Several qualitative benefits accrued from the PPP project. The decisions of offering the projects are supposed to be on clear value for money calculations. However, in certain cases full information is not available to the authorities in terms of actual contracts used.

Hence it is concluded that there is urgent need for sharing of information by the private parties as to how much of the PPP projects are really executed by them; reasons for non-executions, feedback from field officials about the ground realities is implemented. Above all it is equally essential but not sufficient to enforce a PPP audit over the projects assigned to private parties; the fiscal resources allocated by the government, the physical assets created and revenue generated out of the PPP projects undertaken.

**Financing Infrastructure**

We shall now examine different channel from which Fiscal resources are deployed in financing infrastructure the project undertaken under PPP Model. One of the channels is commercial credit granted from Banks and other lenders. During the course of our research enquiry it has been revealed that bank lending is circumspect by the mounting pressure of non repayment of bank dues ultimately leading to accumulation of bad debts and NPS. We discuss here under magnitude of bad debts and fall out on project financing.
Bad debts in banks from Rs 1.3 Lakh Crore at the end of March 2012 jumped to Rs 2.4 lakh crore at the end of December 2013. India’s infrastructure companies grew at a rapid pace, bank stake in infrastructure sector fuelled by debt. For companies to emerge from puny contracting entities to publicly listed infrastructure projects, seeking bank loan is a viable option.

The most of infrastructure funding model is largely financed by banks, which hold mostly short term cash, but lend for longer term projects like building highways and power plants. This has resulted in a large and growing asset-liability mismatch for the banks. They in turn are forcing borrowers to liquidate assets, often at throughway prices. This has retracted private investment flowing in infrastructure projects, and it enhances liquidity risk, repayment risk for the borrowers. Banks are primarily meant for short term lending; when they embark on long term financing of PPP projects the obvious result is asset-liability mismatch.

India needs to develop a market for long term debt, ring fenced according to maturity. In other words, funds raised for twenty years, say, should finance projects for twenty years, thus balancing the demand for monetary resource with its supply side matrix. The world over, the longest term investors are insurers and pension funds; in India insurers are reluctant to invest in long term project debt. Rules need amendment, special purpose vehicles (SPV) meant to develop infrastructure such as IDFC and IIFCL must develop the projects and guarantee their debt servicing. Infrastructure projects need long term finance for cyclical slowdowns that are guaranteed to reverse themselves killing them off prematurely.

Another critical issue is premium aid for highways. The centre on March 4, 2014 has eased a constraint in PPP projects which acts as a relief to private builders of road projects. From now on the builders can stagger their payment of premium to the govt, buying themselves some leeway during an economic downturn that they claim hit their returns.

The premium is the amount builders have to pay to the National Highway Authority of India (NHAI) for build-operate-transfer (BOT) projects on the assumption that the returns from the project would be high. Companies’ bag lucrative contracts, long and wide roads with potentially heavy traffic that promises a sizeable toll collection; on the strength of the premium they offer the government. Our research enquiry reveals that companies engaged in at least 48 road projects, running into 5781 km and worth around Rs 55000 crore have been citing the reasons of rising cost owing to downturn; and reduced commercial traffic. They demand a moratorium on the premiums because of their inability to pay premium after repaying bank loans and also on spending money on highway maintenance. The govt decision in March 2014 implies the Govt will accept delayed payment of Rs one lakh crore worth of premium.

GMR has undertaken 555 km Kishangarh-Udaipur- Ahmedabad highway in December 212; while GVK has been constructing a 330km highway in Madhya Pradesh connecting Shivpuri to Dewas.

Infrastructure project are ideal long term assets that can attract investment from insurance, pension and similar class of investor, who are always on to look out for well-structured long dated derisked investment opportunity. Former US president HarryTrumen who famously said; America does not have good roads because it is rich, but that America rich because it has good roads the same analogy puts an essential condition to promote connectivity through infrastructure, road, building, port bring for closure and ensure a bonded comprehensive growth for all sections of the economy. This will ultimately flourish achieving the target of inclusive growth for the country by 2050 and this would bring long term peace for the country.

In Greek myth, Sisyphus was condemned to carry a boulder up a mountain. Every time he approached the top the boulder would topple over and fall down. Sisyphus curse was to keep doing this for all eternity. His crime; being too intelligent by half. In Indian PPP model the same story applied, too much intelligence applied to secure debatable outcomes. According to our research investigation and
literature survey, we gathered the expert opinion from several authors and corporates executives involved in execution of PPP projects (Harishankaran, 2014).

It is opined that good PPP’s can have the following benefits percolating down to the objective of creation of infrastructure and assets.

- Good PPP’s have lowered the life cycle cost of projects
- Introduced state of the art technology
- It substantially improved customers service
- Corporates are voluntarily seeking ways to increase positive impact of their projects by undertaking CSR initiatives. It may be mentioned here Companies Act 2013 has mandated upon the companies to mandatorily spent 2% of their profits CSR related activities.
- In case on viability gap funding (VGF). The ministry of finance offers priority to socio–economically desirable projects viable under the PPP format and the Govt extends budgetary grants and fiscal resources support to the projects.

Mr HariShankaran has ventilated that many projects instead of seeking grants went for a premium. It implies that the private sector agree to pay Govt. for contract with no checks in the bidding strategy. Bidders bid aggressively to win project under PPP model. But subsequently either they cannot execute it confirming to the committed quality standards on partially complete it and leave the work half done. This mounted additional pressure on the Govt to call for additional bidding to complete the half done work. As a result, project could not generate cash flows to service aggressive cost. Perhaps this happen because the govt allowed companies with 3 to 5 years time horizon to bid for concession of 15-30 years. Poor govt contracting strategies using wrong rubric, save budgetary resources coupled with over jealous private sector bidders desperate to secure wins resulted in a poisonous cocktail of failure. Endresult is that we have a much weakened sector with a severely diminished capacity to absorb new investment.

**Hindrances**

The following are the constraints that are revealed in course of our field survey over the implementation of PPP projects.

- There is no formal law governing the project contract
- Whether bidding will be done through multi-stage bidding after scrutiny of the project proposal at two or three layers
- Whether there will be open public action or through mere official notification, then receiving the tender proposal and then assignment of contract.
- Who will be authority to fix the price for bidding of the project, whether it is going to ensure a reasonable amount of public revenue and at the same time leave some remunerative commercial gain for private parties
- What is the scope of CAG scrutiny and audit over the work allocation by public authorities, government departments
- In case a private party suffers loss at a subsequent period on account of work contingency, strike, price escalation, natural calamity, higher compensation payable for land acquisition and rehabilitation of the affected people, or for other reasons.
- There is less information available in terms of actual contracts used.
- Initial spadework and the garnering of statutory approvals is done by the Govt, prior to inviting bids.
Uncertainty over environmental, forest and other clearances at a subsequent stage delay projects. This escalates cost overrun and time overrun, change in bidding process, delays in getting the requisite projects approvals, jacking up costs, slow down in the economy leading to slow down in traffic flow and in turn toll collection and toll projections are circumspect by risk and uncertainty of an assured return.

Delays, litigation in land acquisition, payment of monetary compensation; over shifting of utilities in the states can hold projects for a long period.

Steps Suggested

- Having accepted the Rangarajan Committee formula, the centre has approved premium rescheduling for road projects. Premium is the amount road developers agree to pay the Govt, as the projected returns to them from tolls etc are seen as very attractive. Reportedly premiums adding up to Rs 151000 crore are due to the centre.
- The centre and the concerned state may form a Joint Venture (JV) to fast forward project clearances in a time bound manner. This would obviously make the project bankable and speed up its execution through debt financing from lenders. It would enable winning bidders raising funds at finer rates free of various risk premia.
- Revenue streams from tolls or real estate development can be quite different from initial estimates, it is worth to have built in mechanism for transparent renegotiations for the greater good. The contracts must clearly spell out the obligations of all the stakeholders.
- There is need to have an independent regulator for highways for oversight on project development and follow-through, including maintenance and the vital aspect of Road safety.

CONCLUSION

Fiscal administration and resource allocation principal stipulates that public revenue should be deployed in the best possible way which ensure percolation of benefits to the large number of members in the society, sharing benefits among all, making common fiscal resources delivering services to large number of members in the course of governance. PPP is one of the instruments of delivering public service blending together the benefits of both the world of public ownership of assets with private enterprising zeal and spirit. It is essential but not sufficient to create and environment of reciprocate, commonality of goals based on mutual trust and good faith. Our research findings revealed that PPP mode has attained quite a degree of success during the last ten year period and the model would continue to serve the nation in creating development in put for the future generation with sustainable development sans destruction.

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