International Journal of Business and Management Invention
ISSN (Online): 2319 – 8028, ISSN (Print): 2319 – 801X
www.ijbmi.org Volume 3 Issue 6 ǁ June. 2014 ǁ PP.21-25

Public Private Partnership; Various Perspectives of It in India and Odisha

[1,]Debiprasanna Das, [2,]Sukhamaya Swain
AXIS Bank Ltd., Samantarapur Branch, Bhubaneswar, Odisha
B.E., PGDBM

ABSTRACT: *"PPP projects take less time to complete and the Government does not have to bear cost overruns. This will not only enable us to leverage our limited public resources but also improve efficiency of service delivery". This very statement of Dr. Manmohan Singh sums up the importance of Private Public Partnership. PPPs broadly refer to long-term, contractual partnerships between the public and private sector agencies, specifically targeted towards financing, designing, implementing, and operating infrastructure facilities and services that were traditionally provided by the public sector. In India, the growth of PPPs has been substantial.*

KEYWORDS: *PPP in India, PPP in Odisha, PPP projects in India, PPP projects in Odisha.*

I. INTRODUCTION

Limitations of government resources and capacity to meet the infrastructure gap have led to the present scenario of focus on PPP projects. PPPs primarily represent value for money in public procurement and efficient operation. Apart from enabling private investment flows, PPPs also deliver efficiency gains and enhanced impact of the investments. The government aspect ensures that the compliance and the requisite rules are not bent to any individual (or group of individuals)'s benefit. The private angle logically ensures optimum usage of finance and is responsible for bringing in the element of proper utilisation of man, money and power. However PPP projects also have several risks attached to them which often lead to cancellations and/or significant renegotiations (escalation in prices and delay in the execution beyond the stipulated frames set before the start of the project). The evidence from developing countries indicates that actual or perceived rise in tariffs, macroeconomic fluctuations (like currency rate changes, changes in purchasing power, inadequate regulatory) and institutional environments, societal discontent against the private sector and political reneging are some of the key reasons for the failure of PPP projects.

II. CERTAIN CORE ISSUES

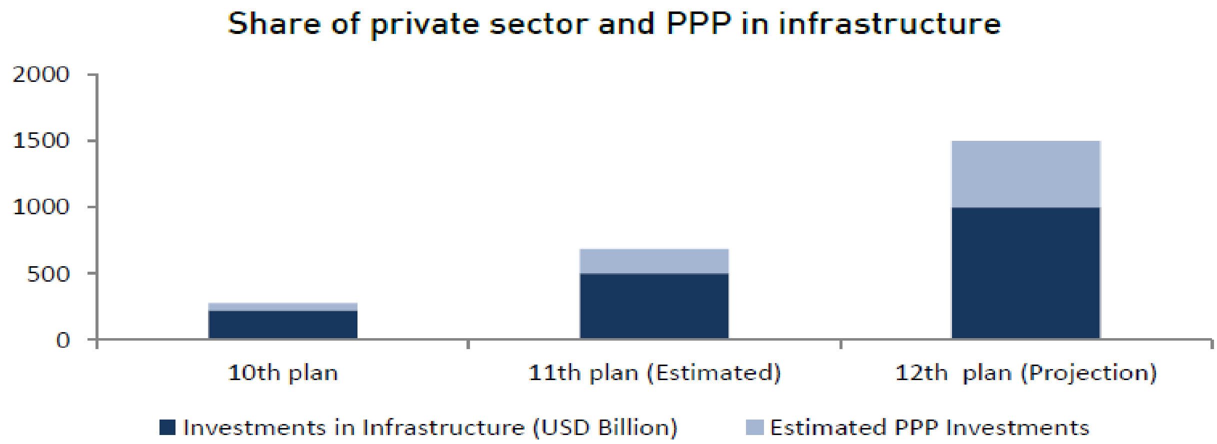
A review of international best practice in PPPs suggests a number of core issues that public authorities must address when considering their use for procuring public infrastructure projects. These include:

- Whether PPP arrangements will result in better value for money than conventional procurement methods;
- Whether the project is affordable in the long term, given overall budgetary constraints;
- How willing is the private sector to be involved in the provision of public services; and what type of PPP arrangement is most appropriate for a particular project.

In recent years, the PPP model in India has been fairly successful with several projects being implemented across sectors. However, one of the main problems confronting infrastructure and PPPs in India is the delay in implementing and executing large-scale projects resulting in time and cost overruns. Efficiency in implementing infrastructure projects in India is a rarity. The PPP model is a complex one leading to problems at various stages of implementation and execution of the project.

III. STATUS OF PPP ACROSS DIFFERENT INDUSTRIES IN INDIA

In terms of number of projects, roads and highways are emerging as the favoured destinations for PPP, while telecom and electricity lead in terms of private investments. Nevertheless, the government is focusing on PPP across railways, water supply and sewerage, and health and education sectors.



The above exhibit clearly shows that there is systematic growth and we are aware of the same being on a planned basis by successive governments.

A ROADS : Road projects in India were earlier were fully financed and controlled by Government. The implementation of road projects was purely dependent on the availability/allocation of funds out of the budget of the Government. It was however assessed during the time of planning of the Tenth Plan that for National Highways alone, INR 1,65,000 Crores was required for removal of the deficiencies. Because of costs of this stature, government decided to venture into alternate options of funding and making these projects live. With a view to attract private investment in road development, maintenance and operation, National Highways Act (NH Act) 1956 was amended in June 1995. As per the changes, the private persons could invest in the NH projects, levy, collect and retain fee from users and is empowered to regulate traffic on such highways in terms of provisions of Motor Vehicle Act, 1988. Few important changes were as follows

a. Govt. would bear the cost of Project Feasibility Study, Land for the right of way and way side amenities, shifting of utilities and getting Environment clearance, cutting of trees, etc.

b. Foreign Direct Investment allowed up to 100 % in road sector.

c. Subsidy upto 40% of project cost to make projects viable; the quantum of subsidy to be decided on a case-to-case basis.

d. Allowance of 100% tax exemption in any consecutive 10 years out of 20 years after commissioning of the project.

e. Duty free import of high capacity and modern road construction equipments.

f. Declaration of the road sector as an industry (Infrastructure as defined in section 18(1)(12) of the Infrastructure Act includes Roads).

g. Easier external commercial borrowing norms.

While there are a number of forms of Public Private Partnership, the common forms that are popular in India and have been used for development of National Highways are –

- Build Operate and Transfer (BOT) Toll basis.
  Here the concessionaire (private sector) is required to meet the upfront/construction cost and the expenditure on annual maintenance. The Concessionaire recovers the entire upfront/construction cost along with the interest and a return on investment out of the future toll collection.
- Build Operate and Transfer (BOT) Annuity basis.
  In this model, the Concessionaire (private sector) is required to meet the entire upfront/construction cost (no grant is paid by the client) and the expenditure on annual maintenance. The Concessionaire recovers the entire investment and a pre-determined cost of return out of the annuities payable by the client every year.
- Special Purpose Vehicle (SPV) basis
  It involves very less cash support from the NHAI in the form of equity/debt; rest of the funds comes from Ports/Financial Institutions/beneficiary organisations in the form of equities/debt.
  The roads sector has also embraced several innovative methods of project structuring. In projects where revenue risks are likely to present, contracts are awarded on an “Annuity” basis as opposed to using a traditional toll collection revenue formula. In an Annuity contract the private concessionaire finances the road and receives a guaranteed payment on a periodic basis (usually half-yearly), subject to meeting certain quality standards in the operation of the facility. Also, in cases where road stretches are not economically viable, the NHAI has introduced a scheme for Viability Gap Funding (VGF) wherein the private operator can collect a toll and seek an up-front VGF grant to balance any projected deficits between the cost of the

project and the expected revenues. The value of the VGF is limited to a maximum of 40% of the total projects cost. Other transportation sectors – airports, ports and railways – are also seeing increased levels of private involvement. New ports are being developed on a BOT basis, and a Model Concession Agreement for this sector is being prepared. A regulator is already in place for this sector. In the railways sector, private participation is being sought in track-laying, freight services and railway maintenance. Two Greenfield airports have been recently constructed in Bangalore and Hyderabad, and mark the first instances of the use of PPPs in the Indian airport sector. The Mumbai and Delhi airports have been modernized and will be operated under concession agreements with the private sector.

B Power : The Indian power sector has garnered significant interest from private players. With 56 projects for a total consideration of USD 12.6 billion, the sector accounts for 18.0 per cent of the total value of PPP projects across sectors. India's total generating capacity is around 173,626.4 Megawatts (MW), of which the private sector accounts for the lowest (21.2 per cent). Factors such as rapid urbanisation, rural electrification and industries across the length and breadth of the country indicate the need for an additional generation capacity of 75,785 MW during the Twelfth Five-Year Plan; this would entail additional investments of USD 64.6 billion. The private sector is likely to account for a major share of the additional capacity (55.6 per cent) and investments (50.8 per cent). PPP is likely to be the preferred route for such ventures.The government is encouraging PPP to increase power penetration in both urban and rural areas. During the 12th Plan, the central government plans to initiate over 100 PPPs in urban areas and around 1000 in rural areas to bridge the demand-supply gap. In line with this, it has permitted 100 per cent FDI in the sector; also, independent regulators are encouraging global power companies to establish power plants through PPP."Clean and green energy is a priority of the government. However, despite cost advantage in labour, land and construction, consumer pays a high price for renewable energy. One of the reasons is high cost of finance, "Chidambaram had mentioned in his budget speech of 2013. He had proposed that low interest bearning funds would be provided by National Clean Energy Fund to Indian Renewable energy Development Agency (IREDA) for five years.

C Railways : Although private sector investments have been low in this key infrastructural segment, the same is likely to change, going forward. Private sector involvement is visible across a number of railway-related services. For example, private container trains have commenced operations even as Indian Railways Corporation (IR) manages 1,271 book stalls across various railway stations and operates four hotels on PPP basis. IR's enquiry services, known as 'Rail Sampark 139' (Integrated Train Enquiry System), are operative through the PPP route.The Indian railways sector requires an investment of USD 97.2 billion under the 12th Five-Year Plan (FY12–17), of which IR is expected to raise USD 18.7 billion and the remaining is likely to be funded through PPP. Under the 12th Plan, the Ministry plans to award projects related to locomotives and coach manufacturing units, and the construction of a corridor for high-speed rail to generate the required investments. Other potential projects to increase private sector participation include redevelopment of railway stations, logistics parks, private freight terminals, port connectivity, dedicated freight corridor (Sonnagar-Dankuni) and energy conservation.Government's financing is expected on these lines (project-wise) under PPP for Indian Railways:

High Speed Corridor (Mumbai–Ahmedabad)	3,740.0
Elevated Rail Corridor (Churchgate–Virar)	3,740.0
Dedicated Freight Corridor (Sonnagar–Dankuni)	1,874.1
Redevelopment of stations	1,870.0
Energy projects	1,122.0
Port connectivity projects	935.0
Loco and coach manufacturing units	561.0
Logistics parks	561.0
Private freight terminal; other freight schemes	526.4

IV. PROBLEMS AND HURDLES ASSOCIATED WITH PPPS IN INDIA

The Economic Survey (2008-09) noted six key hurdles faced by PPPs: policy and regulatory gaps; inadequate availability of long-term finance; inadequate capacity in public institutions and public officials to manage PPP processes; inadequate capacity in the private sector— both developer/investor and technical manpower; inadequate shelf of bankable infrastructure projects that can be bid out to the private sector; and inadequate advocacy to create greater acceptance of PPPs by stakeholders. Going in detail:

Financing : The crucial role infrastructure development plays in easing supply side constraints to economic growth has been well recognized; much has also been written about it. According to the Twelfth Plan, as much as $1 trillion is required for investment in infrastructure. This is not a small figure and much has to be done, including capital market reforms that will facilitate easier borrowings. The corporate bond market in India is still in its infancy.The challenge lies in the fact that these projects have a long gestation period and have chances of project delays due to local problems or due to land acquisition. It becomes very difficult for loaning companies and agencies to evaluate and finance. Most of the loaning agencies be it banks or dedicated institutions have experts exclusively for handling, evaluating and monitoring these types of projects.

Land acquisition : This is by far the biggest roadblock to major PPP projects. Resistance from local communities has proven to be a potent force and has led to delays in infra projects. There is generally a huge difference between the registered value offered and the actual market value, which results in disputes and litigation. Moreover, valuations are conducted on the basis of the current status of land, and the system does not capture the appreciation after the construction of the project. In addition, rehabilitation packages are not planned meticulously and execution is inefficient. For instance, the National Highway Authority of India bids out highway projects even when it has acquired only 10-15% of the land, or even less, assuming that the balance land will be acquired by the time financial closure of the project is achieved.

Policy framework : The various categories of approvals required across the project cycle at every stage, right from the pre-tendering stage to post construction. While it is important to have a rigorous procedure that ensure transparency and quality, bureaucratic complexities and the protracted procedure for securing approvals are often considered serious disincentives for developers and contractors. Moreover, most of the large projects involve dealings with various ministries. Often, the perspectives of the different ministries/departments vary and co-ordination remains inefficient (World Bank, 2006).

V. ODISHA'S TRYST WITH PPP

- Orissa PPP Policy 2007 has been put in place with due legislation and statutory backing. Infact the state was one of the earliest states to have a statute in place with regards to PPP.
- Govt. of Odisha has put in place State PPP Cell under Planning & Coordination Department headed by Special Secretary, PPP to act as the Nodal Agency for all PPP projects in Odisha under direct supervision of Chief Secretary.
- PPP Cell after conducting several rounds of discussions with different stake holders and leading consultants formulated Odisha PPP Policy 2007, which has been approved by Government of Odisha to facilitate Infrastructure Development in the State under PPP mode.
- High Level Clearance Authority (HLCA) under the Chairmanship of Chief Minister has been constituted to take care of strategic and / or large alliances.
- Empowered Committee on Infrastructure (ECI) under the Chairmanship of Chief Secretary has been constituted.
- A Society has been formed and registered in the name and title of "**Orissa PPP Technical Society**" to assist the State PPP Cell and to discharge the functions of the Technical Secretariat as laid down in the Odisha PPP Policy 2007.
- Signed a MoU with Department of Economic Affairs, Govt. of India for availing Technical Assistance from ADB for capacity building of Technical Secretariat. The capacity building will be in the form of one PPP expert, one MIS expert & legal and regulatory experts. MIS Expert and PPP Experts have already joined the PPP Cell.
- PPP Cell has been able to rope in Technical Assistance in the form of 2 experts from DFID through E & Y for capacity building of PPP Cell for a period of 10 months.
- Talks are ongoing with World Bank representatives to provide further necessary Technical Assistance.
- A PDPP arrangement with IL&FS for Project Development works is under operation through IDCO. A Project Development corpus of Rs. 4 Cr. has been created.

- The PPP Cell is entering into a Project Development Agreement with Ernst & Young & SREI International on success fee basis and no cost to Govt. of Odisha.
- Consultants like Price Water Coopers, Ernst & Young, IL&FS are already working on some of the PPP projects in the state.
- A shelf of 32 nos. PPP Projects worth more than Rs. 12500 Cr. has been finalised in consultation with the owner departments of which 16 projects are already under implementation in sectors like Roads, Ports, Urban Infrastructure, Railways etc. Many more projects are under conceptualisation.
- A National Level Workshop on PPP was held at Bhubaneswar along with E & Y involving all key infrastructure Departments/ Agencies.

VI. ON A FUTURISTIC NOTE

Though the sectors discussed in the paper are only 3 i.e. Roads, Power and Railways. However there are many sectors where PPP is already active like Telecommunications and Ports. Besides, there are many areas like healthcare (the industry is pegged at USD 75 Bn by 2015), education, higher education and media where there is huge scope of PPP not just because of the financial scope but also for the logistics size requirement.

VII. CONCLUSION

In the last decade, the government has been faced with a huge resource crunch. The combined deficit of the Central and state governments is roughly 10 percent of the GDP. Government borrowing has been capped through the Fiscal Responsibility and Budgetary Management Act. This necessarily limits state participation in infrastructure financing, thus opening the door to innovative approaches such as PPPs.The Government of India has been encouraging private sector investment and participation in all infrastructure sectors. As the National Development Council has made clear, 'increased private participation has now become a necessity to mobilize the resources needed for infrastructure expansion and upgrading.'PPPs are still a relatively new phenomenon in India and are in a nascent stage compared to the advanced models of PPPs in other countries. Until 2004, there were only 85 PPPs, but between 2004 and 2005, this figure leapt to 500, and in 2011 the number of PPPs in the country had increased to 840 as per the PPP database of the Government of India. PPPs worth billions are under development across the country, with the largest number of projects in the road and bridges sector, followed by ports. These sectors dominate PPP initiatives.

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