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Public Private Partnership in India : Relevance, Progress and Prospects

KEYWORDS

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Introduction :
Indian economy is a typical example for countries that follow mixed economic system. The main thrust of mixed economy rests on the principle of public and private participation in economic activities. It assumes that the role of both public and private sector must be complementary, and not competitive in nature. Though India adopted the mixed economy approach of economic development, the said principle of public-private partnership is still vague in its conception, actual adoption and implementation.

During the early period of independence, the investments on large infrastructure and service oriented projects are adopted by the government. However, only after fifty years of independence, Public Private Partnership (PPP) projects came up in an organized manner. The PPP projects are widely implemented in the areas of infrastructure services such as education, health care, transportation, tourism, energy and urban development (GOI : 2011).

The objective of this paper is to examine the relevance of the PPP projects implemented in India, their progress and future prospects. The study relies on secondary information published by the Department of Economic Affairs, Ministry of Finance, Government of India. The study highlights the regional disparity in the PPP Projects across Indian states.

Origin and Relevance of Public-Private Partnership
A public private partnership is a legally-binding contract between government and private for the provision of assets and the delivery of services that allocates responsibilities and risks among the various partners. Public Private Partnership (PPP) Project means a project based on a contract or concession agreement between a Government or statutory entity on the one side and a private sector company on the other side, for delivering an infrastruc-ture service on payment of user charges. In other words, it describes a government service or private sector companies. In short, PPP is a mode of implementing government programmes / schemes in partnership with the private sector. These schemes are often referred to as Private Sector Participation (PSP), PPP, P3 or P3 (Asian Development Bank : 2006) Needless to state and that PPP projects take a variety of forms, with varying degrees of public and private sector risk. However, the goal is to combine the best capabilities of the public and private sectors for mutual benefit as postulated by the mixed economy system. The relevance of PPP could be understood by examining the need for it and the benefits of the same to the Government and Society. These aspects could be enlisted as follows :

Investment in Public Infrastructure :
In general, huge investments on public infrastructure such as highways, ports, airports, railways, irrigation, education, health, energy, tourism and other public assets have been funded by the government and, in many cases, have added to public debt. PPP can be reduce government's capital costs and thereby bridging the gap between the need for infrastructure and the Government's financial capacity.

Delivery of Services :
The problems of delivery of public services could be improved by allowing both public can private sectors to do what they do best. As each sector takes responsibility on their functions, production and distribution of services could be ensured. In addition, by bringing together the strengths from the public and private sectors, PPP enjoy the ability to share a wide range of resources, technologies and skills in a cooperative manner that can work to improve services delivered to the people. It also facilitates faster delivery of services and delivery of services on time.

Cost-Effectiveness :
The private sector by their motivation towards economic gain on their business initiatives are expected to be economical and more effective based on their managerial, technical, financial and innovation capabilities. In fact, the advantage of private sector innovation, experience and flexibility would facilitate the delivery of services more cost-effectively than traditional approaches.

Performance-Based Contracts
Public-private partnership projects adopt an output focused contract which relates payment to performance. This dimension implies project results or performance that how assets or services are provided. It indicates result orientation, innovation and final outcome or performance.

Risk Sharing
The risks involved in any business initiatives are the major huddles to large investment oriented social projects. Under PPP projects, risks are shared between the public and private sectors, allocating particular project risk to the partner who could better manage that risk cost-effectively.

Optimum Use of Assets :
The best or optimum use of resources particularly the assets created out of large investments in very much needed to achieve the performance of projects. As private partners are motivated use facilities fully and to make the most of commercial opportunities to maximize returns on their investments, the net result of PPP projects would be higher levels of service output, greater accessibility and reduced occupancy costs, all towards optimum use of assets.

Long-term Investment Opportunities :
PPPs create long term investment opportunities on service oriented projects for private to get involved which otherwise would not happen. Once a private company established a track record of working successfully with the public sector, their scope and opportunities would be wide in other areas and sectors which in turn facilitate further investment opportunities for the participating private sector.

The above discussion reveals the advantages of PPPs on

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the one hand and the relevance of PPPs on the other in the context of investment, delivery, performance, effectiveness, risk-sharing, optimum use of resources and opportunities. On realizing the relevance and advantages of PPPs, several initiatives have been taken up by the Government of India from the turn of this century. In fact, involving private sector in infrastructure projects was felt in the context of financial constraints that limit the ability of the state to engage in social projects and strategies were evolved to create a facilitating framework for PPPs in the year 2003 (Economic Survey 2003-04, Planning Commission : 2004)., More sectors have been opened to PPPs and foreign investment. The levy of user charges is being promoted, regulatory institutions are being set up and fiscal incentives are given to infrastructure projects. Approval mechanism for PPPs in the Central sector has been streamlined through the setting up of Public Private Partnership Appraisal Committee (PPPAC). Standardized bidding and contractual documents have been notified. To address the financing needs to these projects, various steps have been taken such as setting up of the India Infrastructure Finance Company Limited (IIFCL) and Viability Gap Funding (VGF). Dedicated infrastructure funds are also being encouraged to increase the flow of equity investments.

In this background, we shall examine the performance of PPPs in India in the next section.

Performance of PPPs in India

As on July 31, 2011, there are 758 PPPs in India with a total project cost of 3,83,322 crores. These projects spread over various sectors like health, education, energy, roadways, Railways, Airports, ports, tourism and urban development. Table 1 indicates the trends in Public Private Partnership projects and their value of contracts during the last five years in India.

Table : 1
Trends in Public Private Partnership Projects in India

Year	Number of Projects	Value of Contracts (Rs. In crores)	Cost per Project (Rs. in crores)
2006	15	8,280	460
2007	221	129,575	586
2008	300	135,876	453
2009	450	224,176	498
2010	518	273,847	529
2011	758	383,332	506

Source : Economic Survey, various years and GOI : 2011

It could be seen that the number of PPPs increase steadily from 15 to 518 while the cost of the projects rise from Rs. 8,280 crores to Rs. 273,847 crores during the last years. The cost per project does not show much variation, but increasing mildly during the period under reference. The distribution of the projects by sectors and value of contracts show the divergence among the projects.

Table : 2
Distribution of PPP Projects in India by Sectors and Cost

Sector	Project		Value of Contracts		Value per contract in Crores
	Number	% Share	In Crores	% Share	
Airports	5	0.66	19116.0	4.99	3823
Education	17	2.24	1849.7	0.48	109
Energy	56	7.39	67244.6	17.54	1201
Health Care	8	1.06	1833.0	0.48	229
Ports	61	8.05	81038.2	21.14	1328
Railways	4	0.53	1569.6	0.41	392
Roads	405	53.43	176742.9	46.10	436
Tourism	50	6.60	4486.1	1.17	90
Urban Development	152	20.05	29475.0	7.69	194
Total	758	100.00	383332.1	100.00	506

Note : The data relates to the period 31, July 2011.

Source : GOI : 2011

The table reveals that out of 758 projects account for a maximum of 405projects, accounting for 53.43 percent of the projects. The average contract value of road projects is below the overall project average indicating that the road projects are relatively small in size. Projects on airports and ports are relatively low in number, but average contract values are very high. The average value of contract for airport projects is the highest at 3823 crores followed by 1328 crores for ports. Ports though, account for 8 per cent of the total number of projects, have a large average size and constitute 21 per cent of total value. 7 percent of the total projects are energy based which account for 18 per cent of the total value. Urban development projects account for about 20 per cent of the total projects, but they share only 8 per cent of the project value as these projects are relatively small in size. It is noteworthy that projects on education and health care remain largely unattended and in fact, these projects are too small in size indicated by the low average value per project. The lowest contract value per project was observed for tourism at 90 crores per project.

The distribution of the project values in four ranges reinstates the earlier arguments on the number and size relationships. In general, the PPPs are of high budget and 78 percent of the project are above 500 crores. It is worth nothing that the projects on education, health and tourism were almost equally distributed across various category levels by project value.

Table : 3
Distribution of Values of PPP Contracts by Categories by Sectors in India (2011)

Sector	Distribution of value of Contracts by Categories				
	< 100 Crores	100 – 250 crores	251-500 crores	>500 crores	Total
Airports	0.0	0.0	1.6	98.4	100.0
Education	22.9	19.8	24.9	32.4	100.0
Energy	0.5	1.4	4.6	93.5	100.0
Health Care	17.2	18.7	15.0	49.1	100.0
Ports	0.1	2.2	5.3	92.4	100.0
Railways	0.0	6.5	55.6	37.9	100.0
Roads	2.5	6.6	21.8	69.1	100.0
Tourism	25.2	33.5	17.8	23.4	100.0
Urban Development	9.5	10.6	22.7	57.1	100.0
Total	2.5	5.2	14.4	77.9	100.0

Same : The same as for Table 2.

The regional disparity in the initiatives on PPP projects could be understood by classifying states by number of projects. It could be observed that across states and union territories, the leading users of Public Private Partnership Projects have been Karnataka (104), Andhra Pradesh (96), Madhya Pradesh (86), Maharashtra (78), Gujarat (63) and Rajasthan (59). In states such as Tamil Nadu, Kerala, West Bengal, Punjab and Orissa the number of projects were medium (26 to 50).

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Table : 4
Distribution of Indian States by Number of PPP Projects as on 31 July 2011

	Number of Projects			
	Low	Medium	High	Very High
STATE	<25 Chandigarh(2), Goa (2) Puducherry (2) Uttarakhand(2) Meghlaya (2) Jummu & Kashmir(3) Assam (4) Chhattisgarh(4) Bihar (6), Haryana(10), Delhi (13) Uttar Pradesh(14) Sikkim (24) Inter State (14)	26-50 Orissa (27) Punjab (29) West Bengal(30) Kerala (32) Tamil Nadu(43)	51-75 Rajasthan(59) Gujarat (63)	>75 Maharashtra (78) Madhya Pradesh (86) Andhra Pradesh (96) Karnataka (104)

Source : Compiled from GOI : 2011

Summary of Findings and Prospects of PPP in India

In the above discussion it is evident that the PPP has several advantages such as huge investment in public infrastructure, efficient delivery of services, cost-effectiveness, performance-based contracts, risk-sharing, optimum use of assets and long-term investment opportunities. Though India follows the mixed economic approach which relies on public private involvement in economic activities, Public Private Partnership in delivering infrastructure services is now a decade old, with majority of projects coming in line within the last 5 years.

The PPP projects on the said lines have been initiated in various sectors such as health, education, energy, Roadways, Railways, Airports, Ports, tourism and urban development, indicating steady progress on it too. However, there are wide disparities in the sector coverage, project size and initiatives across states. PPPs in the areas of education, health care and tourism is low in project size and relatively unattended. There exists a wide disparity in the spread of projects across states. The leading users of PPP are Karnataka, Andhra Pradesh, Madhya Pradesh, Maharashtra, Gujarat and Rajasthan.

Studies on this subject highlight some of the major problems of PPPs in India. They are; additional costs involved in project and partner identification, difficulties in protecting the public interest, problems associated with private financing element, reduced or loss of control over public assets and issues related to their access and delivery of services, loss of accountability for the tax payer, difficulties in mitigating risks and rigidities in long-term contract.

In the context of new economic reforms and globalization, the scope for PPPs is vast and wide, and likely to take lead in future. Union Finance Minister Pranab Mukherjee has rightly said that “with effective use of PPP, we can achieve the desired level of growth”. Taking a lead from the above statement, it can be concluded that the need of India is not a PPP but an effective PPP.

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