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A Study of Public Private Partnership (PPP) with Special Reference to Infrastructures

KEYWORDS: PPP, Infrastructure, Strategy, Fast & furious.

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ABSTRACT *Public-Private Partnership (PPP), now a day has become a subject of debate & a popular strategy to deliver public-infrastructure in India. Government both at National level & State level are focusing to implement their Projects through PPP Model. By PPP model huge number of public service project has been implemented which can make our infrastructure and Indian economy in top of the countries. Government works with private sectors as a party to deliver fast and furious services under estimated time. The PPP project has been found a cost-efficient as well as improved in work quality services. By PPP, our country enhances the expected economic growth. PPP in future is like a shining star for India. Besides merits there are some challenges like transparency, time concern objects, lack of latest technology and machinery, project costing, use of materials, choice of best private firms and institutions, strategy formulation, capital management, absence of skilled man power etc. These factors sometime make PPP projects more difficult in sense of quality measurement. Sometimes PPP projects fail due to lack of collaboration and cooperation between government and private units. The purpose of this paper is to find out the possibilities of success of PPP in India and highlight various challenges which create difficulties to promote private public partnership (PPP).*

1. Introduction:

PPP is not a new concept in field of infrastructure in India; PPP story began with investments in "Indian railroads" in the latter half of the 1800s. By 1875, about million were invested by British companies in Indian railways. With 65% of power generation was done by private companies alone before independence. In early 1900s, distribution of power supply was handing by Tata in Calcutta and in Mumbai which plays a keen role to promote Indian infrastructure. To enforce PPP in infrastructure, government made many amendments in laws to promote PPP concept. By announcement of New Economic Policy (1991), the doors to the private sector were opened for participation in infrastructure development. Polices related with the provision of public services and infrastructure make by both the Government and private sector. Managerial skills, technological skills, working skills and financial strength of the private sector are relieving government various types of Risk and huge capital expenditure. Partnership between public and private sector makes thing reliable for development of economic as well as infrastructure. Public private partnership sometimes referred to as PPP, P3 etc. PPP refers to a long-term contractual partnership between the public and private sector agencies. Facilities and services like financing, implementation, designing, operation and technology which influence public sector to work separately with private firms. PPP model simply works on low risk and high growth. PPP is a joint collaboration between public and private units so as to meet the lack of invested capital to fulfil the requirement of development of infrastructure. A legal entity in which 51% or more of equity is with private partners. The union government has estimated an investment of $320 billion in the infrastructure in the 10th plan. The major infrastructure development projects in Maharashtra (more than 50%) are based on the PPP model. In the 2000s, other states such as Karnataka, Madhya Pradesh, Gujarat, and Tamil Nadu also adopted this model. Sector-wise, the road projects account for about 53.4% of the total projects in numbers, and 46% in terms of value. As like Brazil, China and Russia, India is developing and growing at a faster pace in recent years and catching up with the other fastest growing economy. The journey to keep growing and faster pace, it's important to develop a strategy for encouraging private investment in infrastructure through Public Private Partnerships (PPP). The Government of India developed a strategy for encouraging private investment in infrastructure through Public Private Partnerships (PPP). Because of competitive global environment, governments around the world are focusing on new ways to finance projects, build infrastructure and deliver services. Public-Private Partnerships (PPP's) are becoming a common tool to bring together the strengths of both sectors. Investment from PPP sources would contribute approximately 1.2% of GDP. Thus, PPP which makes Indian economic and infrastructure modernize in new era to provide needed capital to finance government programs and projects.

2. Objectives of Study:

1.1 To study the impact of public private partnerships on infrastructure.
1.2 To examine and analyze the various challenges & issues before PPP.
1.3 To explain various kinds of challenges and problems that PPP are facing or likely to face in future.
1.4 To explore the various types of specific opportunities.

3. Literature Review:

The PPP is defined as "the transfer to the private sector of investment projects that traditionally have been executed or financed by the public sector" (IMF, 2004). In India focusing on "Privatization" with the help of PPP model is the only way to improve public related services. PPP involves a contract between a public sector and a private party, in which the private party provides a public service and assumes substantial financial, technical, managerial, functional and operational risk in the project. Thus by adopting PPP model, government get the right kind of solution for there infrastructural related issues. Mutual cooperation and mutual understanding finalizing the way of project,

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whether its give positive impact or not. According to the World Bank, the key feature is to 'manage infrastructure like a business, and not like a bureaucracy' (World Bank, 1994, p.2). The neo-liberals call for 'reinventing government' by inspiring a new entrepreneurial spirit (Osbome and Gaebler, 1992; Hammer and Champy, 1993). They propose a lean state and lean government and advocate a greater role for private sector in service provision and they argue that 'market type management approaches could be effectively applied to the public sector' (Hood, 1991; Osbome & Gaebler, 1992). The proponents of New Public Management emphasize the need for 'speed and flexibility and touted the advantages of markets for both greater private sector engagement and consumer voice for citizens' (Savas, 1987). The New Public management reform is focused on competition and entrepreneurialism (Warner, 2008). The belief is that the market would make govt. service provision self correcting in three different ways: cost cutting, project efficiency and quality management. Public Private Partnerships (PPPs) is an effective tool for bringing private sector efficiencies in creation of economic and social infrastructure assets and for delivery of quality public services. The extent of private sector participation in creation of infrastructure, especially through PPP, has shown a promising increase in the recent years. As the information published by Press Information Bureau Government of India, till January 2012, there were 881 PPP projects with Total Project Cost of Rs. 543,045 Crore as compared to over 700 projects with Total Project Cost of Rs.371,239 Crore by March 2011. These projects are at different stages of implementation i.e. under bidding, construction and operational stages. The broad sectors encouraged under the PPP framework are Highways, Railways, Ports, Airports, Power and Urban Infrastructure etc. Government in order to drive PPPs, which are expected to bring in about 50% of the infrastructure spend of USD 1000 billion in Twelfth Five Year Plan (2012-17) is taking steps to further streamline PPP processes by drafting national PPP policy and development of corporate Bond markets. To answer the above questions, some international bodies and agencies have defined PPP model in different way as follows:-

The International Monetary Fund (IMF): "Public-private partnerships (PPPs) refer to arrangements where the private sector supplies infrastructure assets and services that traditionally have been provided by the government (IMF 2004, p 4)".

The World Bank: "PPP programs are projects that are for services traditionally provided by the public sector, combine investment and service provision, see significant risks being borne by the private sector, and also see a major role for the public sector in either purchasing services or bearing substantial risks under the project (World Bank 2006, p13)".

The Asian Development Bank (ADB): "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 (ADB 2006, p15)".

The European Union: "A PPP is the transfer to the private sector of investment projects that traditionally have been executed or financed by the public sector (European Commission 2003, p 96)".Means to bring together a set of actors for the common goal of improving the health of a population based on the mutually agreed roles and principles (WHO 1999).A variety of co-operative arrangements between the government and private sector in delivering public goods or services provides a vehicle for coordinating with non-governmental actor to undertake integrated, comprehensive efforts to meet community needs to take advantage of the expertise of each partner, so that resources, risks and rewards can be allocated in a way that best meets clearly defined public needs (Axelsson, Bustreo and Harding 2003).A form of agreement that entails reciprocal obligations and mutual accountability, voluntary or contractual relationships, the sharing of investment and reputational risks, and joint responsibility for design and execution (World Economic Forum 2005). PPP model following countries formulate legal law according to their legal amendments and fall under the contractual relationship with private institutions.

4. Research Methodology:
This research paper is carried out with the help of only secondary data. The major tools for the collection of the information has been available from literature, journals, books, magazine Websites and reports of different Central and State Govt. agencies.

5. Result & Discussions:
The result & discussions which is carried out in the study of PPP model have Importance for public and private units both to make a good agreement & run successfully PPP projects. Some of the major challenges and opportunities are discussed in this paper in are as follows:-

5.1Challenges of PPPs in India: There are various types of challenges that PPP models are facing in India. These challenges are emerging from a number of areas like as;

5.1.1 Projection Costing: Some projects of PPP model fails due to project costing which is not match with the over all costing of the project. Delaying of the projects due to lack of sufficient finance which were not provided by Government bodies in time to meet project completion in estimated timeline.

5.1.2 Transparency issue: Project transparency which is another obligation and plays an important vital role in completion of project. The process of executing the projects in India involves various stages and each stage is to pass through complicated policies and programs. While passing the process of bidding and awarding the contract is stated to be much transparent. PPP projects sometimes run into controversy because of various transparency issues generated by private as well as public sector.

5.1.3 Risk Allocation: Infrastructural projects sometimes carried out some risk related to construction risk, financial risk, market risk, performance risk, demand risk etc.. Huge investment involves greater risk.

5.1.4 Centre-State Rivalry: There has been rivalry between "Center-State" relationships. If the government at the centre is of one political party and of another political party at the state level, the projects are always delayed due to non release of funds on time.

5.1.5 Land Acquisition: Most of the roadway-project delays due to Acquisition of land because of various policies. Temple, Mosques, Residential houses, Farming Land etc. are challenging due to some lawmakers sided with protestors for political gain.

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5.1.6 Financing issues: The short-term duration of available debt financing and limited number of credit sources generate problem as well as volume of PPPs. Both "debt and equity" financing for roadway development in India present several challenges. This is complicated by India's lack of a Debt-Equity market, which would make longer maturity debt more available.

5.2 PPPs as an opportunity in India: There is an opportunity for public and private both sector to help in infrastructure and social service development by PPP. These opportunities are as follows:

5.2.1 Reducing risk for public sector: By transferring of work to the private partner, risk is transferred to private sector that can be better managed by the private partner. For Example, company which deals with only project of highway or roadways can better understand the risk and can manage all the appropriately.

5.2.2 Promoting investment in public infrastructure: Investments related to social infrastructure, hospitals, schools, highways and other provincial assets have traditionally been funded by the private sector. PPP can reduce government's capital costs, helping to bridge the gap between financial crises.

5.2.3 Fast service delivery: Allowing of both sectors to do what is the best one, is followed by both parties. Public sectors core and important business is to set policy and serve the public.

5.2.4 Cost-effectiveness: Advantage of private sector innovation, experience and flexibility, PPPs can often deliver services more cost-effectively.

5.2.5 Utilization of private technology and management: Utilization of private technology and mechanism is most favorable thing for P3s. Private institution magnify and justify every thing which is cost-effective, time-effective, project-effective, public-effective etc..

5.2.6 Best management of asset: Private units are motivated to use facilities fully, and make greater opportunities of positive return in time. This can result in higher levels of service, greater accessibility, and reduced occupancy costs for the public sector.

6. Suggestion:

The following suggestions were made based on the basis of above discussion. The suggestion which were mentioned as follows describes to improve P3s and the implementation is easier in different ways.

- PPP have a lot of opportunity, government take it seriously so various other benefit government gain by PPP project.
- Latest Innovative ideas by PPP models may be used to enhance returns to developers. So Govt. takes care of these things.
- Transparency approach should be adopted by both the Central and State Government.
- Project appraisal execution of infrastructure projects should get a clear choice about its implementing whether by the Government or private or both under PPP.
- Cooperation and coordination is required to complete project in time. Cooperation between both of Central-state and public-private is necessary.
- Government of India has started responding to PPP situation by preliminary measures, as incremental variable gap funding and lower concession fees. However, more comprehensive measures must be taken by Govt..
- Choose of appropriate financial institution is most important thing. Bonding between both units is required because of project completion.
- Pre measurement of costing, timing etc. is essential and which is measured by public unit before bidding of project.
- Evaluation and analysis of project time by time is important by public sector.

7. Conclusion:

Conclusion of my research paper would be helpful to public & private both sector to take more Productive, initiative, participative in development of infrastructure in estimated time. Delivers of social services through the PPP projects in time without and delay is main focus of paper. Various challenges like project appraisal, transparency, risk and return, time concern, acquisition of land and other are exist in PPP is focusing point of paper. Government take initiative to remove all these challenges, and provide various rules & regulations to solve the problems between Central-States Government and arrangement valuable financial credit facility to provide the private sectors, by which private sector (domestic & foreign investors) would take more interest in investment PPP project in India. The Government should also take necessary steps to implement the PPP project in different states of India to develop social welfare and infrastructure. Bonding between different parties and government is important to frame out country as well as economy. Infrastructure is directly proportionally to economic development.

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