



Public Private Partnership: A Emerging Concept For Global Business & Economy

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ABSTRACT

This article highlighted the meaning, origin developments of Public Private Partnership (PPP). It also discusses the various models of PPP and the need for Public Private Partnership in India. It highlighted the PPP projects, its domestic players and foreign player participation in India. It elucidates the scope for PPP in India.

Keywords : Public Private Partnership (PPP), Special Purpose Vehicle (SPV)

Meaning Of PPP

Agreement between government and the private sector regarding the provision of public services or infrastructure. Purportedly a means of bringing together social priorities with the managerial skills of the private sector, relieving government of the burden of large capital expenditure, and transferring the risk of cost overruns to the private sector. Rather than completely transferring public assets to the private sector, as with privatization, government and business work together to provide services.

Public-private partnership (PPP) describes a government service or private business venture which is funded and operated through a partnership of government and one or more private sector companies. These schemes are sometimes referred to as PPP, P3 or P3.

Models Of Public-private Partnerships

The following terms are commonly used to describe partnership agreements in Canada, although this should not be considered a definitive or complete listing:

- a) Design-Build (DB): The private sector designs and builds infrastructure to meet public sector performance specifications, often for a fixed price, so the risk of cost overruns is transferred to the private sector. (Many do not consider DB's to be within the spectrum of PPP's).
- b) Operation & Maintenance Contract (O & M): A private operator, under contract, operates a publicly-owned asset for a specified term. Ownership of the asset remains with the public entity.
- c) Design-Build-Finance-Operate (DBFO): The private sector designs, finances and constructs a new facility under a long-term lease, and operates the facility during the term of the lease. The private partner transfers the new facility to the public sector at the end of the lease term.
- d) Build-Own-Operate (BOO): The private sector finances, builds, owns and operates a facility or service in perpetuity. The public constraints are stated in the original agreement and through on-going regulatory authority.
- e) Build-Own-Operate-Transfer (BOOT): A private entity receives a franchise to finance, design, build and operate a facility (and to charge user fees) for a specified period, after which ownership is transferred back to the public sector.

f) Buy-Build-Operate (BBO): Transfer of a public asset to a private or quasi-public entity usually under contract that the assets are to be upgraded and operated for a specified period of time. Public control is exercised through the contract at the time of transfer.

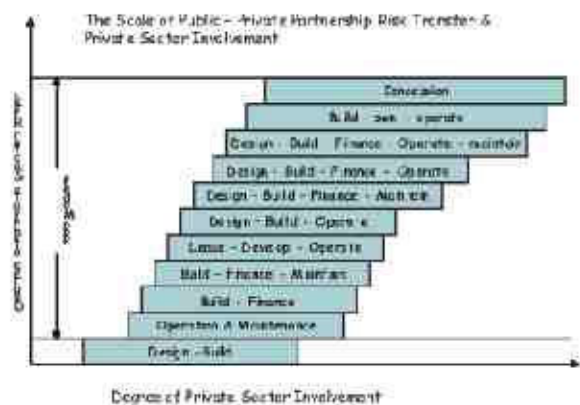
g) Operation License: A private operator receives a license or rights to operate a public service, usually for a specified term. This is often used in IT projects.

h) Finance Only: A private entity, usually a financial services company, funds a project directly or uses various mechanisms such as a long-term lease or bond issue.

Scale Of Public-Private Partnerships Risk Transfer And Private Sector Involvement

The options available for delivery of public services range from direct provision by a ministry or government department to outright privatization, where the government transfers all responsibilities, risks and rewards for service delivery to the private sector. Within this spectrum, public-private partnerships can be categorized based on the extent of public and private sector involvement and the degree of risk allocation. A simplified spectrum including the above models for public-private partnerships follows.

Figure 1: Scale PPP Risk Transfer and Private Sector Involvement



Need For Public-Private Partnerships

In an increasingly 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 or P3's) are becoming a common tool to bring together the strengths of both sectors. In addition to maximizing efficiencies and innovations of private enterprise, PPP's can provide much needed capital to finance government programs and projects, thereby freeing public funds for core economic and social programs.

5. Public Private Partnership (Ppp) Projects In India

Delivering infrastructure services through Public Private Partnership (PPP) has garnered substantial pace since 2000. Governments of India have taken crucial initiatives to operational and institutionalize PPP policy to promote the flow of private capital for accelerated infrastructure development in the country. Some states have engaged in more PPPs than others; with an extensive use of PPPs in some sectors than others.

Table 1: State Wise projects based on value of contracts

States	Total Number of Projects based on value of contracts					Value of contracts (crore)
	Total Number of Projects	Based on 100 crore	Between 100 to 250 crore	Between 251 to 500 crore	More than 500 crore	
Andaman and Nicobar Islands	1	1	-	-	-	85
Andhra Pradesh	36	17	5	8	6	10818
Bihar	2	1	-	1	-	422
Chhattisgarh	4	1	2	1	-	853
Delhi	8	5	-	1	2	9813
Gujarat	27	5	2	9	11	17700
Haryana	4	-	-	3	1	658
Jharkhand	6	2	3	1	-	681
Karnataka	28	18	2	4	4	5252.7
Kerala	9	1	2	2	4	12463
Madhya Pradesh	25	14	2	8	1	4856
Maharashtra	25	2	5	3	15	31140.79
Orissa	4	1	-	-	3	3730
Puducherry	3	1	-	1	1	2346
Punjab	20	14	2	4	-	1339
Rajasthan	37	33	2	2	1	2538.68
Sikkim	24	6	4	7	7	17110.59
Tamil Nadu	26	5	5	14	5	9948
Uttar Pradesh	6	-	1	6	2	2108
West Bengal	5	-	1	3	1	2055.4
Total	300	127	38	78	64	135876

(Source: www.pppindiadatabase.com)

According to the sample of 300 projects in this Database, the governments active promotion of PPPs in the key infrastructure sectors, such as transport, power, ports, urban infrastructure, and tourism, including railways, has resulted in a total estimated investment of Rs. 1, 35,876 crores in 20 states.

Table 2: Sector wise figure

Sector	SECTOR WISE FIGURES					Value of contacts
	Total Number of Projects	Based on 100 crore	Between 100 to 250 crore	Between 251 to 500 crore	More than 500 crore	
Airports	6	-	-	1	5	20041
Ports	38	4	5	6	23	43053
Railways	3	-	1	2	-	1007
Roads	186	86	23	54	23	47756
Urban Development	35	28	4	1	2	6218
Energy	32	13	4	7	8	17802
Total	300	131	37	71	61	135876

(Source: www.pppindiadatabase.com)

It is evident from the tables above that road sector dominates in terms of number of projects, accounting for 62 per cent of total projects (35 per cent of total project investment due to smaller average size of projects). Ports come second in terms of number of projects, i.e., 13 per cent, which is 32 per cent in terms of value of projects.

It is noteworthy that if ports and central road projects are excluded from the total, there is in fact a relatively small value of deal flow, at only Rs 45067 crore in basic infrastructure PPPs to-date, suggesting a significant potential upside for PPP projects across sectors where states and municipalities have primary responsibility. The potential use of PPPs in e-governance, health and education sectors remains largely untapped across India as a whole, though off-late there have been some activities shaping in these sectors.

Another addition to the database is the energy sector which indicates 32 projects with a total investment of Rs. 17802 crore. Out of 32 projects in energy sector, 28 of them are hydro based power projects on BOOT basis which were negotiated MOUs between the state and the private parties.

Across states and central agencies, the leading users of PPPs by number of projects have been Rajasthan, Andhra Pradesh, Karnataka and Tamil Nadu, with 37, 36, 28 and 26 awarded projects respectively, all in the roads sector, and the National Highways Authority of India (NHAI), with about 77 projects.

In terms of main types of PPP contracts, almost all contracts have been of the BOT/BOOT type (either toll or annuity payment models) or close variants. In terms of approach to provider selection, almost all the projects (in the sample data available for 300 projects) were competitively bid (either national or international competitive bidding) with the negotiated ones (through MOUs) primarily accounted for by railway and ports sector.

Table 3: Sector Wise Projects

Sector	Total Number of projects	Total Number of Projects based on Contract Award Method			Value of Contracts (Rs. Crore)
		Domestic Competitive Bidding	International Competitive Bidding	Negotiated MOU	
Airports	4	-	4	-	18808
Ports	28	5	12	11	39998.95
Roads	179	-	-	-	46385.07
Urban Development	29	22	6	1	4689.48
Railways	3	1	-	2	1007.22
Energy	28	8	-	20	16793.59
Total	271	36	22	34	127682.3

(Source: www.pppindiadatabase.com)

Private sector targeted towards financing, designing, implementing, and operating infrastructure facilities and services that were traditionally provided by the public sector have been a success story so far with the Government of India leading the process of promoting Public Private Partnerships (PPP) in India.

The Central Government is working with the State Governments and all other stakeholders to expand the horizon of PPPs in infrastructure development in the country. It has created a favorable atmosphere, provided fiscal incentives and facilitated funding of PPP projects. The Government now allows FDI in most infrastructure sectors to the extent of 100 percent.

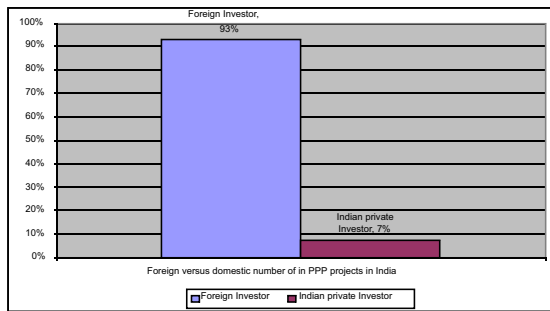
The crucial initiatives to operational and institutionalize the flow of private capital for accelerated infrastructure development in the country through PPPs, has led to an investment of Rs. 135871.42 crore as per the sample of 300 in the PPP database.

Domestic Players Participation In PPP Projects

Review of successful projects indicates that they have clear boundaries and measurable performance for the private party, sufficiently large scale of operations, competitive market for provisioning of the services, significant service delivery, and ability for the private sector to control factors for which it is responsible.

On aggregate level the domestic players have dominated the PPP projects both in terms of numbers and investment. Out of sample of 300 projects 278 projects with investment of Rs. 134145.57 crore. The road sector has dominated investment by domestic players with aggregate investment of Rs. 51,398 crore.

Chart -1: Foreign versus domestic number of in PPP projects in India



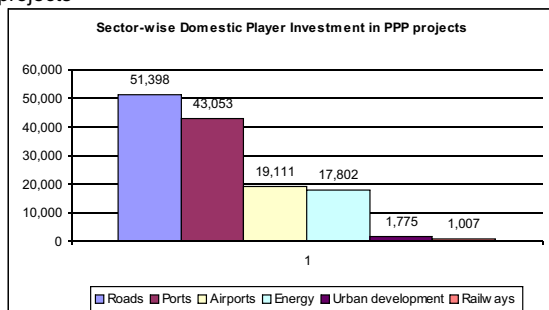
The port sector with total domestic player investment of Rs. 23931 crore comes second and airports at Rs. 19,111 crore. The energy space that includes hydro based power plants is dominated by domestic private players Rs. 17,802 crore.

Leading among big domestic players is Larsen & Toubro with a total investment of, both in existing and under construction projects, totaling Rs. 3498 crore mostly in road projects. It is followed with GMR Infrastructure with a total investment of Rs. 1288 crore.

In case of small road projects on BOT basis Sadbhav Engineering limited with investment in 11 projects with total investment of 2085.68 crore leads the domestic scene. The Delhi based DS Constructions Limited is second, with total investment of Rs. 320 crore. Mumbai based MSK Projects (India) Limited is third in terms of investment, with 15 projects and total investment of Rs. 238.84 crore. Among these three players they shared 30 projects out of 300 sample projects.

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Chart -2: Sector-wise Domestic player Investment in PPP projects



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Table 4: Domestic Player in PPP Project

Domestic players	Investment by private player	Number of projects
	(Rupees in crore)	
Major domestic players		
Larsen & Toubro Transportation Infrastructure Ltd.	3497.95	10
GMR Infrastructure Ltd.	1287.98	6
IVRCL Infrastructure & Projects Ltd.	936.6	4
Small domestic players		
DS Constructions	319.42	4
Sadbhav Engineering Limited	2085.68	11
MSK Projects (India) Limited	238.84	15
Total	8366.47	50

(Source: www.pppindiadatabase.com)

Foreign Player Participation In PPP Projects

The foreign multinationals have equity participation only in 22 PPP projects in the sample of 300, where contracts have already been awarded and projects are underway. Malaysian companies are leading investors in public private partnership (PPP) projects in India, involving nearly six major infrastructure ventures followed by the United Kingdom with four projects, Mauritius (three), two each for France, Germany, United Arab Emirates and the Philippines, and one each for the United States and Switzerland.

Foreign equity participation of 27 foreign companies in PPP projects was only at Rs 1,725.85 crore which is meager 1 per cent of the total project investment. Prominent PPP projects where foreign companies have an equity stake include modernisation of Mumbai and Delhi international airports, Delhi-Noida toll bridge, Pipavav port, Bangalore international airports and JNPT container terminal etc.

Mauritius-based ACSA Global (Airports Company South Africa), for example, has Rs 160 crore equity stake in modernization of Mumbai international airport project. Apollo Enterprises from UK has equity stakes of Rs 48 crore and Rs 11 crore in Lucknow-Sitapur road project and Raipur Durg expressway respectively.

Table 5: Foreign versus domestic investment in PPP projects in India

Investor Type	Total Investment	% of total number of projects	% of total project cost
Foreign Investor	1725.85	7%	1%
Indian Private Investor	134145.57	93%	99%
Total	135871.42	100%	100%

Table 6: Sector wise break up of foreign investor participation in PPP projects

Foreign Investor Versus Sector	No. of Projects	Investment	% of total project cost
Ports	9	416.5	24%
Roads	9	256.22	15%
Airports	4	1053.13	61%
Total	22	1725.85	100%

The State Governments have been making all efforts for attracting capital inflows into the infrastructure sector. The most important step in this direction has been the initiation of 'Public Private Partnership (PPP)' programme. PPP refers to a long-term contractual partnership between the public and private sector agencies, specifically targeted towards financing, designing, implementing and operating infrastructure facilities and services in the State. These PPPs aim to achieve the twin objectives of high growth and equity on a sustainable basis.

The State Governments have identified a whole range of sectors for public-private partnership, including roads/highways, tourism, industrial infrastructure, shipping, etc. Some of the key infrastructure initiatives undertaken by the States using PPPs are:-

Karnataka: The major PPP project under implementation in the State is the 'Bangalore International Airport'. This is the first airport in the country being executed through the PPP route. The airport is being developed through a joint venture of the Airports Authority of India (AAI), Karnataka State Industrial Investment and



Development Corporation Ltd. (KSIIDC) and private promoters (Siemens, Zurich Airport, and Larsen & Toubro). Some of the other such projects are the HassanMangalore Rail Line for Rs 310 crore (completed); the elevated expressway to E-City (Rs 600 crore, under construction); etc.

Andhra Pradesh: The major PPP project in the State is the 'Hyderabad International Airport', being executed under the build own operate (BOO) format. The other such projects are the Kakinada Deep Water Port, being developed on the operate- maintain- share-and-transfer (OMST) format; the Gangavaram Port, in the build own operate and transfer (BOOT) mode; FAB City; Hyderabad Outer Ring Road; Kakinada SEZ; Integrated Township and Convention Center; Jawaharlal Nehru Pharma City; Hyderabad Integrated Trade and Exposition Center; Hitec City and several knowledge, IT and biotechnology parks.

West Bengal: The major PPP initiatives in the State are the Salt Lake City Center and the Hiland Residential Project (under joint venture). The other proposed PPP projects include four-laning of KalyaniDum Dum Expressway; Water Park-cum-Entertainment Center along the Eastern Metropolitan Bypass; as well as transport, residential, commercial and entertainment/leisure infrastructure at Asansol, Howrah, Durgapur and Kolkata. Besides, the housing projects coming up on the outskirts of Kolkata City are a good example of PPP model in terms of delivering quality housing.

Kerala: The major PPP initiatives under way in the State are the 'Trivandrum City road improvement project' and the 'Vizhinjam International Container Transshipment project'. The former



encompasses ten city road corridors and three National Highway bypasses of around 42 km as well as one underpass and two flyovers at junctions of strategic importance. The project is being implemented under build-operate-transfer (BOT) scheme on an annuity basis and its total cost is estimated at Rs 145 crore
Madhya Pradesh: The State is a pioneer in PPP projects in the road sector. It has developed 1500 km roads under BOT. Other sectors with PPPs are water supply, city bypass, mobile medical units, bus stands, etc. The major PPP projects are the Dewas town bypass; Dewas industrial water supply project; mobile medical units and special economic zone (SEZ).

Gujarat: The concept of PPP was introduced in the State in the early 1990s, when the Gujarat Maritime Board commenced construction of the Pipavav port. Since then (as per the available information), twenty-one projects amounting to Rs 13,672.50 crore have been implemented through private sector participation. The State has proposed

several projects under Viability Gap Funding (VGF) scheme, namely, Ahmedabad Bus Rapid Transit system; RajkotJamnagarVadinar Road; Ahmedabad Convention Center; Dashes SEZ; Four-laning of HalolGodhraShamlaji Road and Ahmedabad Viramgam Road; etc.

Scope For PPP In India

In Budget the finance Minister has insured a sharp increases in institutional funding to Public Private Partnership (PPP) Project refinance: (60 % refinancing on PPP projects by IIFCI) to evolve a takeout financing scheme in consultation with banks to ensure greater funds to the infrastructure sectors. The proposal is to make IIFCL refinance 60% of commercial banks loan for PPP projects in critical infrastructure projects. For all such PPP projects, the State Governments have identified a well-defined regulatory framework. It includes enactment of legislations for clearly defining the types of infrastructure facilities, the governing authorities, the procedural requirements and the scope of private sector in execution of these projects.

The PPPs also plays important role in eGovernment for longer-term contracts between public contracting authority and private provider for delivery of specified outputs (typically combining investment and service provision). Electronic processing enables easy hand shake amongst partners and different models outsourcing discreet tasks. The Best-practice technologies and innovation can be made PPP into successful infrastructure project for our country.

The private sector participation is expected to be about 40 billion USD and of which 10 billion dollar is expected from the foreign investors. Urging the foreign investors to come forward and avail the vast investment opportunities in the country.

Shri Brijeshwar singh, chairman, NHAI gave a presentation on the future road projects for investment at the conclave. In the next three years, more than 100 projects worth about Rs 98000 crore would be available for bidding as part of the Annual work Plan (2009-10) of NHAI. The event saw huge participation from the investors belonging to various fields such as investment bankers as well as the companies from the infrastructure sector including construction companies, and those dealing with construction equipment and technology.

Conclusion

The foreign players are investing with domestic player in PPP projects. Malaysian companies are leading investors in public private partnership (PPP) projects in India, involving nearly six major infrastructure ventures. In the present budget also Government have increases in institutional funding to Public Private Partnership (PPP) Project refinance: (60 % refinancing on PPP projects by IIFCI) to evolve a takeout financing scheme in consultation with banks to ensure greater funds to the infrastructure sectors. The scope of PPP in India is good and few states had benefit from it. The Government should also take necessary steps to implement the PPP project in all other states also in order to develop the infrastructure in the country.

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