



ORIGINAL RESEARCH PAPER

Engineering

PUBLIC PRIVATE PARTNERSHIP IN CONSTRUCTION INDUSTRY

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ABSTRACT

The Public Private Partnerships (PPPs) have emerged as a very feasible, reliable, viable, and growing mode of creating infrastructure for developing country like India. Though public sector will continue to play a dominant role in building of infrastructure, the PPPs have enabled us to channelize private sector investment in infrastructure. Keeping in mind that our country is still starved of infrastructure required for high level development, the opportunities for the growth of joint venture between both the sectors are huge and desirable. The anticipated percentage participation of the private sector in the twelfth plan is much higher than the earlier plans. The Indian PPP scenario as it stands an optimistic picture. However several bottlenecks and challenges have been encountered in PPP model development in India also. Some of the major challenges relate to regulation and availability of finance for the private sector. The Government of India on its part has been fully aware of the benefits that such partnerships can offer to the country and has been taking steps to remove some of these problems. The present study is an attempt to justify into the scope, future growth and risks that such partnerships may hold for the country.

INTRODUCTION

According to the National Public Private Partnership Policy 2011, a Public Private Partnership (PPP) means an arrangement between the governments or statutory entity or government owned entity on one side and a private sector entity on the other. For the provision of public assets or public services, through investments being made and management being undertaken by the private sector entity, for a specified period of time, where there is well defined allocation of risk between the private sector and the public entity and the private entity receives performance linked payments that conform to specified and pre-determined performance standards, measurable by the public entity or its representative.

We are in 21st century and still India is an infrastructure deficit country. The need of the hour is to transform India into a developed economy by the integration of vital sectors, networking, technological advancement and connecting the rural-urban economies. The government sector both at the central and at state level itself helpless to cope with the growing demands of the economy on its own funds. Hence, need is to look for other sources of development and private participation through PPP which is the best viable and reliable option available.

BASIC OF PUBLIC PRIVATE PARTNERSHIPS

Some of the essential conditions to mark a public private arrangement are envisaged in the definition by the National policy. Though each PPP contract is a unique one depending on the circumstances of the case, still each one of them is based on some inherent characteristics common to such contracts. However, a few other conditions which are also desirable in a good and fair PPP are related to specifications about risk assumption, mode of payment. The payment would be through cash flows from the public sector based on performance or whether it would be charged from the consumers using the service, incentive and penalty based structures in the arrangement so as to ensure that the private sector is benchmarked against service delivery, identification of minimum technical specifications without affecting the possibility of innovation and specified time period for either transfer of the project or its implementation by the private sector entity.

PPP AND ITS ENVIRONMENT IN INDIA

Though the private participation can be related to some stray examples during the British's time and early post-independence era the real PPP movement understood in today's parlance commenced during the 1990s when electricity generation was thrown open to the private sector, licenses were granted to eight mobile circular telephone service operators followed by a significant amendment in 1995 in National Highways Act 1956 to

allow for private participation. But, it was in 1997 when the Infrastructure Development Finance Company was set up that the movement got a fillip and also signaled the government's seriousness to tap the private sector capital, management and expertise in the country's infrastructure development. According to Vinayak Chatterjee (2012), today China's economy may be four times that of India but India's PPP market is ten times larger than China. In fact, it could be the world's largest PPP market. The credit for these achievements should also be given to a right kind of enabling environment that was created in our country. Besides the above examples many new legislations were enacted post 1990 which made the environment in our country very conducive to public private participation. Various Acts like Electricity Act, 2003; the amended National Highways Authority of India Act, 1995; the Special Economic Zone Act, 2005; and the Land Acquisition Bill were passed and many new institutions like regulatory authorities in telecom, power and airports, implementing authorities like the National Highways Authority of India (NHAI), and financial institutions like the Infrastructure.

REVIEW OF LITERATURE

Public Private Partnership is playing a vital role in India, first metro PPP project in which all three phases (construction, operation and maintenance) are given to private player. Mumbai metro is a concession agreement on Built-Own-Operate-Transfer (BOOT) basis for a period of 35 years. It was developed by constituting a special purpose vehicle (SPV)- Mumbai Metro One Private Ltd. (MMOPL), a joint venture of Reliance Infrastructure, Veolia transport (France) and Mumbai Metropolitan Region Development Authority (MMRDA) holding 69%, 5% and 26% of equity share capital respectively. Government wanted to monitor the project closely and hence become a partner in the SPV. The Great Indian Peninsular Railway Company and the Power Generation and Distribution companies in Bombay and Calcutta (now Kolkata) in the early 20th century are some of the earliest examples of PPP in India. Since the opening of the economy in 1991 there have been several cautious and tentative attempts to bring investments through PPPs in India. However, most PPPs have been restricted to the roads sector.

ADVANTAGES AND DISADVANTAGES OF PPP WITH REFERENCE TO INDIAN INFRASTRUCTURAL PROJECTS

Advantages

- [1] Value for Money: The important advantage of PPP is the creation of value for money. This means delivering a project with the superior quality for same amount of money.
- [2] Risk Transfer: Risk will be transferred to third party who is best able to manage risk at least cost.
- [3] Private sector management skills: This allows the project to be

delivered well ahead of time. By using PPP Government will have access to new skills.

- [4] Competition: Generally competition is associated with private sector, like lower prices, Innovative Practices, Increased Investment, Better services etc.
- [5] Cost Efficiencies: PPP leads to cost efficiencies which are as a result of increased competition, increased proportion of risk transfer, and closer integration of various aspects.
- [6] Time to Delivery savings: PPP projects can be delivered quicker than under conventional procurement because of better project management, better management of project risks and because the service provider is not paid until the project is completed.
- [7] Reduction on the public Treasury: PPP helps reduce the capital demands on the public treasury for infrastructure development.
- [8] Broad support: PPP are broadly supported by central, state and local bodies.
- [9] Others: Innovation, Private sector project development skills, Transparency of process, Involvement of third party financiers etc.

Disadvantages

- [1] Higher transaction cost: PPP's try to reduce total project cost, however trending costs and developing costs are generally higher.
- [2] Lack of coordination: As there are two or more parties involved in PPP there are chances of misunderstandings.
- [3] Inefficiencies: PPP can lead to Inefficiency due to lack of contestability and competition.
- [4] Culture Gap: There exists a culture gap between public and private sector which may result in loss of confidence in each other.
- [5] Different Objectives: The private sectors motive to take part in PPP is to mainly make profits but the motive of public sector is service oriented.
- [6] Corruption: PPP projects are always behind the risk of corruption as there are too many people and processes involved in the completion of the project.
- [7] Political and Legal Problems: Changing Governments and major changes in law has sometimes a very bad impact on PPP project.

MAJOR INDIAN INFRASTRUCTURAL PROJECTS UNDER PUBLIC PRIVATE PARTNERSHIPS

TABLE – 1 AIRPORT PPPs

Sr.No.	Project Name	State	Cost(cr)
1	Hyderabad International Airport	Andhra Pradesh	2478
2	Modernization Of Delhi Airport	NCR	8600
4	Modernization Of Mumbai Airport	Maharashtra	5800
5	Bangalore International Airport	Karnataka	12690

TABLE – 2 RAILWAYS PPPs

Sr.No.	Project Name	State	Cost(cr)
1	Gandhidham Palanpur Railway Project	Gujarat	500
2	Madhepura Electric Loco Factory	Bihar	750
3	Port Connectivity & Other Rvnl Project	-	830
4	Marhowrah Diesel Loco Factory	Uttar Pradesh	750

CONCLUSIONS

Considering India's infrastructural needs, PPPs are not just an option, but a necessity. It has been seen that PPP has many merits such as large investment in both urban and rural infrastructure, efficient service delivery, cost-effectiveness, contracts that are performance-based, sharing of risks, effective use of assets and opportunities of long-term investment. Though a mixed economic approach is followed by India, which is reliant on public private involvement in economic activities, PPP in infrastructure is now

more than a decade old. It seems to create considerable value to the Indian Government and its citizens with respect to enhancement in time efficiency, greater convenience, increased reliability and saving costs along with easy availability of information. However, there are many issues which need to be identified, addressed and resolved in order to facilitate a better understanding on making use of PPP in a better way to develop Indian infrastructure effectively. Our Ex-President Mr. Pranab Mukherjee has rightly said that "with effective use of PPP, we can achieve the desired level of growth". Considering the above statement, we can conclude that mere PPP is not sufficient for India, but an effective PPP is essential.

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