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# Public-Private Partnership (PPPs) in India -- A Way to Achieve Economic Development

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## Abstract

The Public – Private Partnership (PPPs) are a venture between government sector and privat sector. The main goal of PPPs is to obtain more "value for money". The core principal of PPPs lies in the risk allocation between the public and private sector. These types of ventures are highly desirable particularly in developing countries and where shortages of public funds but government have intention to make speedy economic development. Countries like India, Bangladesh, Pakistan, Nepal, Bhutan, Sri Lanka are more appropriate for PPPs models besides others developing and poor nation countries. Short supply of capital is the one of the main constraints in the way of development. PPPs model can helps to overcome such problems. More than PPPs also helps in proper management, technological problems and in administrative works. So PPPs can consider as the way of Economic Development.

**Key words: PPPs, Economic Development, Value for Money, Developing Countries.**

## Introduction:

The Public – Private Partnership (PPPs) are a relatively new phenomenon in India. Public – Private Partnership can be defined as a venture between government sector and private sector, which is funded and operated through a partnership of government and one or more private sector companies. In other words Public – Private Partnership (PPPs) is a contractual agreement between the public and private sectors. It is a long-term contract between private and public sector. The main goal of PPPs is to obtain more "value for money". The core principal of PPPs lies in the risk allocation between the public and private sector. A well-designed PPP redistributes the risk to both parties in such a way so that both are comfortable with the risk with the least cost. The PPP model varies from short – term simple management contracts to long term and very complex management. These types of arrangements are very useful for large projects that require highly – skilled workers and a significant cash outlay to get started. The Government of India defines PPPs as:' A partnership between a public sector entity (sponsoring authority) and a private sector entity (a legal entity in which 51% or more of equity is with the private partner/s) for the creation and/or management of infrastructure for public purpose for a specified period of time (concession period) on commercial terms and in which the private partner has been procured through a transparent and open procurement system'. (Department of Economic Affairs, Ministry of Finance, Government of India, 2007a).

**Objectives of study:**

The objective of study is to find out the benefits and drawback of PPPs model and its role in economic development.

**Database and Research Methodology:**

Data are mostly collected through desk research of online resources, research papers, conference documents, and other publications. Data from various journals, books, reports and reputed website has been used. The data have been compiled from three types of sources: published documents and reports, the World Wide Web and statistical agencies. All data sources are listed at the end of this note and Web links are provided where possible.

**Main features of Public Private Partnership ( PPPs) :**

**Sharing of Responsibility:**

A key feature of PPPs is that responsibilities will be shared between the public body and the private consortium, but the responsibility will differ according to nature of projects. In most of the cases the ultimate responsibility to provide the services to public remains with government or the government remains ultimately responsible and accountable to provide the services to the public.

**Sharing of Risk:**

The second features of PPPs are sharing of risk between public and private sector according to the risk taking capacity and agreement between them. At initial stage the risk are identified and allocated between them. Normally risks are allocated according to their risk taking capacity and availability of proper equipments and tools.

**Cooperative relationships:**

PPPs are cooperative relationship between government and private sector. Normally projects under PPP are between five to thirty years. To make success the project cooperative relation ship is must. Proper cooperative relationship ensures success of the projects.

**Contractual relationships:**

It is contractual relationship between public and private. Various infrastructural development and public utilities are normally done under PPPs arrangement. Based on contract resources, skills, activities are allocated between them. So follow up the contract is must to get the success in the projects.

**Flexibility in Ownership:**

PPPs provide flexibilities in ownership of the projects. In some cases private sector only construct the project but latterly it owned and managed by the government sectors, like a bridge may be constructed by the private sectors but latterly it may own and maintained by the government. In some cases government may provides various inputs but construction may be done by the private and may own by the private for future public utilities. Normally government are interested to own those projects in which public interest are more involved, on the other hand private sectors are interested to own those projects in which future expected return are higher.

**Method of providing service:**

PPP is one of the best methods to provide the services to the public. Through PPPs now private sectors are playing a vital role in development of infrastructure including development of various services. A fund crisis is always in government sector, by PPP model private sectors provides the funds to make economic development. Private sectors also get / try to get their desired return through this model. Normally these arrangements are made for infrastructural development.

**Approval through Government:**

PPPs are normally approved by governmental procedure, as the projects involved interest of general public, transfer of public assets, imposing of charges from public, environmental pollution etc. Normally an approval commission of PPP consists by a secretary of department of economic affairs, planning commission, department of legal affairs, department of expenditure, department of sponsoring projects etc.

**Private management of public services:**

It is a way by which public services are managed by private sectors, like water supply, road construction etc. A typical example of PPP is toll expressway project financed and constructed by a private sector.

**Private opportunity:**

PPPs provide a great opportunity to private sector to involved in construction, service delivery, designing, planning, resource management, skill development, prove own efficiency, man management etc.

**Why public-private partnership:**

**The reasons of PPPs are the followings.**

- Limitation of Government resources.
- Huge infrastructural deficiency comparing to population density or population.

- Increasing popularity of PPPs.
- Limitation of skill personnel in government sector, particularly huge lack of taking proper responsibility.
- Pressure to achieve millennium development goals (MDGs) ie, providing of safe drinking water, health, sanitation etc.
- Lack of institutional mechanism.
- Improved delivery of public services.
- Easy public sector reforms.
- Poor assets management in government sector.
- Lower rate of return in government sectors etc.

**Different models of PPPs:_**

**The different models are as follows:**

**Designers and Builder:**

In this model private sector partner take the responsibility of designing the project and also to build the project. In this type of project private sector take entire responsibility with a fixed price.

**Only financer:**

In this case private partner mainly a financer company and finance entire fund of project and take reasonable return of the fund from the other partner.

**Operation partner:**

Private partner only allowed to operating the project under certain terms and condition, normally these types of partnership are seen in IT sectors.

**Operation and maintenance of the project:**

In this model private partner take the responsibility of running and maintenance of government project, where ownership remains in hand of government.

**Designer, Builder, operation, finance and maintenance:**

In this type of partnership private sector take entire responsibility of the project for a long period of time starting from designing, builds, operation, finance to maintenance and after the completion of contractual period, project is handed over to the government hand.

**Build, operate and transfer:**

Under this model private sector build and operate a project under public sector land for certain period of lease time, after the completion of time, project is handed over to public sector.

**Maintaining of project:**

Under this model private sector only take the responsibility of maintaining the project, assets for a particular period of time.

**Build and transfer:**

In this case private sector builds the project and after completion of project it transfers to the hand of public sector.

Beside these basic model there may be number of PPPs model.

**PPPs Formation Procedure:**

Guideline for formulation, appraisal, and approval of central sector PPPs are described for different projects by the central government. Different types of guidelines are provided for different projects based on project investment. But guidelines for all of projects are more or less same. Guideline are provided for project costing Rs.250 cores or more or under NHDP ( National Highways Development Project ) costing RS.500 cores or more, project costing more than Rs.100 cores to Rs.250 cores or under NHDP costing Rs.250 cores or more and up-to Rs. 500 cores and project costing less than Rs.100 cores. Guideline for formation of project under PPPs below Rs.100 cores are briefly described below:

- Introduction.
- Institutional structure.
- Applicability.
- Project identification.
- Inter- ministerial consultations.
- Formulation of project documents.
- Appraisal/ Approval of SFC/EFC
- Invitation of bids.
- Time frame.

**Introduction:** Central government has notified a procedure for appraisal/approval of project to be formed under PPPs. Department of economic affairs has issued guideline for formulation, appraisal and approval of PPPs costing less than Rs.100 corers.

**Institutional structure:** Project costing less than Rs.100cores, the Expenditure Finance Committee (EFC), chaired by the secretary of administrative ministry, will appraise.

**Applicability:** This guideline will be applicable for all PPPs costing less than Rs.100 cores, whether project sponsored by central government or statutory authorities or other entities under their administrative control.

**Project identification:** The sponsoring authority will be responsible for identifying proper project for PPPs and undertake responsibility for project feasibility studies, project agreement etc with collaboration of legal, financial and technical experts if necessitate.

**Inter ministerial consultation:** The sponsoring authority will require circulating terms of agreement to the appraising agencies and if the project involves more than one Ministry/Department, the sponsoring authority will sought participation of each department.

**Formulation of Project documents:** The various documents that require on PPPs are includes various agreement for determining the terms and condition between the parties, various concession, right, obligation etc. This agreement may vary from PPP to PPP. After various discussions between the parties these agreements are prepared.

**Approval /Appraisal of SFC/EFC:** Planning commission will appraise the project proposal. It gives the necessary notes on proposal and sent to the administrative ministry and other related departments such as ministry of law etc. After that SFC/EFC will take the proposal along with different notes from different ministers. The SFC/EFC will either recommend the proposal or give note for further modification. After modification SFC/EFC sent proposal to competent authority for approval.

**Invitation of bids:** Financial bids normally invited after approval from competent authority. The competent authority will be same as normal investment proposal costing less than Rs.100 cores.

**Time frame:** i. Three weeks for getting the comments from planning commission. ii. Five weeks for appraisal of proposal by SFC. iii. Seven weeks for clearance by committee consists by secretary, Department of economic affairs (DEA) and secretary of administrative ministry, etc. iv. Nine weeks for approval by competent authority. So total time required for entire procedure is twenty-four weeks.

**Exemption from the above procedure:** Defense, Atomic energy, department of Space will not cover under the above given procedure.

**Few Examples of PPPs in West Bengal:**

**The major PPPs in West Bengal are –**

- Bengal Ambuja Housing Development Ltd.
- Salt lake city center and Hiland Residential Park
- West Howrah Township.
- Kolkata Logistics hub at kona.
- Dankuni Township
- Stadium – cum commercial complex at Rajdanga.
- Solid – waste and tourist lodges.
- Kalyani –Dum – Dum expressway
- Water park-cum- entertainment center along the Eastern Metropolitan Bypass.

- Commercial, residential, transport and entertainment infrastructure at Kolkata, Howrah, Asansol and Durgapur etc.

**Why PPPs:**

**The Benefits of PPPs are:**

**Speedy completion:** PPPs ensure speedy, cost effective and timely completion of projects.

**Synergic effect:** Synergic benefits are seen in PPPs by cross transferring of Public – Private skills, expertise and know ledges.

**Optimal risk management:** In PPPs risk are transfer in optimal way between public and private sectors, by this way risk are properly managed.

**Creation of value for money:** The main advantages of PPPs are it creates value for money by properly managing the various factors associated with the projects.

**New Innovation:** New innovations, new thinking about providing the various services to the publics are seen in PPPs.

**More Benefits:** Effective and proper utilization of assets ensure more benefits for the general public, particularly who are associated with the project.

**Quality public services:** PPPs ensure quality public service, as in PPPs both government and private are conscious about the quality.

**Higher capacity:** As PPP is a joint venture between public and private obviously it creates higher capacity whether it may construction or manufacturing.

**Goal oriented division of work:** In PPPs divisions of work are based on goal of both the parties and for this reason both the party can conduct work more efficiently.

**Higher productivity:** In PPPs both public and private are very conscious about proper utilization of resources and timely completion of project. It ensures higher productivity.

**Wide range of business opportunities:** PPPs offers to private sectors a wide range of business opportunities, which previously confined to the public sectors.

**Proper marketing management:** As the responsibilities are properly allocated between the parties, proper marketing of the projects are seen in PPPs model.

**Drawback of PPPs**:

**The disadvantages of PPPs are:**

**Time-consuming process:** Formation of PPPs are time consuming matter, as it involves various steps and governmental approval from different departments.

**Expensive:** Before formation of PPPs a detail study is required relating to the project and from the aspect of public and private sector. It is an expensive process.

**Higher cost of capital:** Normally it is seen that private funds are more costly than the public funds. This is result in higher cost of capital.

**Long-term agreement:** It is a long-term agreement between the parties and inflexible in nature as changes only then can made when both the parties agree.

**Based on reliance:** Success of the project totally depends upon proper cooperation and reliance. If there are any lacks of cooperation from any of the party, success of the project is not possible.

**Less government control:** In PPPs government control over the projects are lower, but this is highly needed in case of core public service area.

**Lower accountability:** Lower accountability is seen in case of PPPs as both the party are involved in the projects. One transfers his responsibility to other.

**Misunderstanding:** People from both the side may fail to understand their roles and responsibility at appropriate time.

**Not applicable in all areas:** PPP is not applicable in all areas, like areas where public service are of core nature.

**Various proposed areas for PPPs:**

The various proposed areas where PPPs will be suitable:

- Establishment of medical colleges at different rural areas.
- Establishment of dental colleges at different rural areas.
- Establishment of cancer hospital at different rural areas.
- Establishment of health units at different areas.
- Sale of medicine at fair price at different location including contraceptives.
- Different environment control project.
- Management of traffic control processes.
- In different railway project etc.

**Conclusion:**

PPPs are welcomed by most of the countries; India is also in the same way. PPPs are highly desirable in developing countries, particularly where shortages of capital are high. India is second largest populated country in the world and has population more than 118 cores. Providing public services to all is much difficult only by public sectors. Joining hand each other make benefited to both parties and general public also get various advantages. Many PPPs are observed in the area of housing projects, road, bridge, dam, flyover construction, thermal power, water plant, telecommunication network, urban development, medical facilities, leisure facilities, agricultural infrastructure, tourism, waste management, development of port and many more. All of these are highly needed for overall economic development. So PPPs are good for all whether from the view of general public or public sectors or private sectors or Government as a whole.

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