EUROPEAN ACADEMIC RESEARCH
Vol. II, Issue 10/ January 2015

ISSN 2286-4822
www.euacademic.org

Impact Factor: 3.1 (UIF)
DRJI Value: 5.9 (B+)

An Empirical Study of Public Private Partnership (PPP) in India

GAURAV SINGH
Research Scholar
Department of Rural Management
School for Management Studies
Babasaheb Bhimrao Ambedkar University, (A Central University)
Lucknow, Uttar Pradesh, India

M.S.KHAN
Head/Coordinator, MBA & M.Phil Programme
Department of Rural Management
School for Management Studies
Babasaheb Bhimrao Ambedkar University, (A Central University)
Lucknow, Uttar Pradesh, India

Abstract:

Public Private Partnership is the most recent addition in the world of economic development and growth across the country. The government has started a number of schemes in joint collaboration with private sectors in order to give national economy an impetus and thus enhancing the pace of economic growth. Public Private Partnership has become the demand of developing India. There are many sectors and subsectors of Public Private Partnership. Some of them are infrastructure, health sector, education, women empowerment, vocational education etc. The development of physical infrastructure has today become the top priorities of the government among them all. Therefore, the Public Private Partnership has become suitable answer to represent a logical, viable and necessary option for the Government. Keep in this mind, the Indian government has stated PPP schemes to enable to implement infrastructure projects and services via PPP. The Government of India is putting various PPP assistant plans like PPPAC, IIPDF, VGF, IIFCL, and making a lot of efforts to achieve all-round social, economic, political, cultural and national development for its people. This paper highlights the concept and current status of PPP in India. And analyze of various PPP *projects supportive plans as well as discuss emerging areas/ scope of PPP in developing economy like India.*

Key words: PPP, Infrastructure development, Public services, PPPAC, VGF etc.

1. Introduction:

Public Private Partnership defined as legal agreements between public and private-sector entity that offer the delivery of physical infrastructure & services to the society in specific time duration. There private sector work as financing, maintaining, operating, construction and other hand public sector provide full societal and environmental support to PPP projects. PPP projects develop high quality of physical infrastructure projects like roads, highways, ports, airports, metro and other sectors, And in service sectors health, education, child development, skill development, sanitation, etc. All PPP projects improve the quality of life for the citizen. The public private partnerships are not simply tools for funding projects, but require full commitment from all partners at the complete of project. The continued growth of national economy depends on the availability of qualitative, sustained infrastructure, and basic services. PPP is the best answer to address the requirements which are essentially required for the better and continued economy. The PPP or P3s is being encouraged for realization of infrastructure projects. Public-Private-Partnership in today's age is the best mode of implementing various government schemes in association or partnership with the private sector. In PPP projects public and private both sector have a significant role in providing services to the most of projects with regard to strategy formulation and implementation.

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, 2007).

In recent years the concept of PPP is gaining much more momentum across the country just because it has been able to provide ample solution to the much needed projects which government cannot do on its own. PPP can provide solution that can overcome barriers to development due to a lack of infrastructure. PPPs are not only of substantial help to the private sector only rather it allows governments to expand the provision of services by using market tools. It increases the number of services that can be provided within a given state budget and, more importantly, it increases their value in terms of quality and performance. The Government of India has also realized that it cannot serve to the demands of Indian citizen spread across the country alone. The trend of Indian economic rise and almost hovering between 5-6% annual growths, the other countries of the world are looking at India as the potential centre for PPP. The liberal government policies have also helped in bringing world closer to this country, as a result of these liberal policies, India is becoming hub of PPP. In India there are some institutions, which play significant role to making PPP effective and successful. These institutions are like Ministry of finance, department of economic affairs, PPP cell, and Public private partnership appraisal committee (PPPAC) for appraisal and approval of central sector PPP projects, empowered institution (EI) for the projects posed for viability gap funding (VGF) support and India infrastructure project development fund (IIPDF), etc.

1.1. PPP and Privatization:

PPP and Privatization are seen by many people as the same entity. However, both the words are not at all similar and cannot be used as synonyms. There lies vast difference between these two terms which best can be explained on the basis of responsibility, In case of funding projects and its implementation, the entire responsibility for its success or failure lies with the private entrepreneurs. It is the private entrepreneur who has to be made responsible if the projects or services didn't click. But in case of PPP, the full responsibility lies with the government and in case of failure the government has to own responsibility. And on the basis of ownership, the right of ownership under privatization is transferable and can be transferred to private entrepreneurs with both the gains (Profits) and Risks associated with projects. But in case of PPP, the legal ownership of assets is retained by the public sector. It is non transferable. In case of risk & reward**,** under privatization, the private partner enjoys full profits but at the same time is responsible for the losses an entrepreneur suffers. But in PPP this is advantage of private sector that, risks and rewards are shared between both sectors.

1.2. Need of Public-Private Partnerships (PPP):

The enormous and huge task of National Development can not alone be taken and initiated by the government so the government thinks to include private sectors as a party to National Development. Indian public sectors alone cannot serve the gigantic task of structural change and development. After the economic liberalisation (1991), the pace of economic growth is on upward side. In order to keep pace with the world the need of much more investment is felt across the country which can be met with the inclusion of private sectors in this journey. PPP are becoming a common tool to bring together the strengths of both sectors. In addition to maximizing efficiencies and innovations of private enterprise, PPPs can provide needed capital to finance government programs and projects. Finance, Technical expertise and some others reasons governments have undertaken PPP projects.

1.3. Anticipate Investment in Infrastructure during the Twelfth five years Plan: The forecasting strategy for the twelfth Plan encourages private sector participation directly or indirectly of PPPs, wherever desirable and feasible. The share of private sector in infra- structure investment will have to rise substantially from about 36.61 per cent anticipated in the eleventh Plan to about 48 per cent in the twelfth Plan. It is expected that competition and private investment will not only expand capacity, but also improve the quality of service, besides minimising cost and time overruns in implementation of infrastructure projects.

Projected Investment in Infrastructure—Twelfth Five years Plan

(Rs.Crore at Current Prices)

Sectors	Total Eleventh Plan	Twelfth Plan Projections					
		2012-13	2013-14	2014-15	2015-16	2016-17	Total Twelfth Plan
Grand Total	**24,24,277**	**7,51,012**	**8,87,454**	**10,61,316**	**12,85,573**	**15,89,308**	**55,74,663**
Centre	8,56,717	2,50,758	2,80,662	3,15,217	3,54,296	4,00,129	16,01,061
States	6,80,056	2,06,944	2,30,045	2,55,645	2,83,201	3,13,928	12,89,762
Private	8,87,504	2,93,310	3,76,747	4,90,455	6,48,077	8,75,251	26,83,840
Grand Total	**24,24,277**	**7,51,012**	**8,87,454**	**10,61,316**	**12,85,573**	**15,89,308**	**55,74,663**
Public	15,36,773	4,57,702	5,10,707	5,70,862	6,37,497	7,14,057	28,90,823
Private	8,87,504	2,93,310	3,76,747	4,90,455	6,48,077	8,75,251	26,83,840
GDPmp	3,36,04,450	1,01,50,618	1,16,45,987	1,33,58,028	1,53,47,089	1,76,61,48	6,81,63,208
Investment as % of GDPmp	7.21	7.40	7.62	7.95	8.38	9.00	8.18

Table No.1 Data Source: (Volume I, Twelfth Five Year Plan (2012–2017) Faster, More Inclusive and Sustainable Growth, Planning Commission (Government of India) 2013.

The total public sector investment in infrastructure envisaged in the Twelfth Plan is Rs.16, 01,061 crore by the Centre and

Rs.12, 89,762 crore by the States. Investment by the private sector, which includes PPP projects, makes up the balance of Rs.26,83,840 crore, which is 48.14 per cent of the required investment during the twelfth Plan, a much higher share than the anticipated 36.61 per cent during the eleventh Plan.

2. Objectives of Study:

The basic objectives of this study are:

- To understand concept and current status of Public Private Partnership (PPP) Projects in India.
- To analyze effectiveness of various assistance scheme and emerging areas and scope for PPP projects in India.

3. Literature Review:

IMF (2004) The International Monetary Fund 'Public-private partnerships (PPPs) refer to arrangements where the private sector supplies infrastructure assets and services that traditionally have been provided by the government. ADB (2006) The Asian Development Bank, 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. (Chambers, 2006), Rural India needs business to invest in industries such as finance and insurance; in ventures that bring new infrastructure such as telephony and roads. This is where telecommunications can help. Where physical infrastructure may not reach easily, the Internet can. Broadband access is the ideal platform to connect a geographically diverse country such as India. This high-speed Internet technology holds tremendous potential, such as distance learning, telemedicine, supply chain management, customer relationship management. (Desai, 2006), In some cases, even though PPP models allow for exclusive right over public assets, it is free from the evil of monopoly business such as high user charges or low service quality. This happens when government follows competitive bidding process to decide on lowest user charges or provide viability gap funding to safeguard consumer interests. Contracts are designed to ensure service quality. Abdel Aziz (2007) Principles that need to be addressed in order to ensure the successful implementation of a PPP program include: to understand the objectives of using private finance when selecting a PPP arrangement, to properly allocated risks to the private sector, to establish a broad and comprehensive PPP legal framework, to assess the value for money when selecting a delivery system, to create a PPP unit for policy development and/ or implementation, to maintain the transparency in the selection process, to standardize the procedures and contracts, and to use performance specifications. GOI (2007) & Datta (2009) sight that If we judge by the way many governments are currently committing themselves to PPP approach, it is evident that Public Private Partnership (PPPs) have become a popular way of providing public sector infrastructure and services. These partnerships must supplement the scarce public resources for improving the investment in infrastructure sectors, and at the same time improving efficiencies and reducing costs. Mahalingam A (2008) said given India's infrastructure needs, PPPs are a necessity and not just an option. However there are a myriad of issues that need to be addressed and resolved in order to facilitate a better understanding on how to develop infrastructure efficiently and seamlessly via PPPs. Chaudhary L & Bogart D (2009) Over the last decade there has been a substantial increase in public-private partnerships across the world in many different sectors such as infrastructure, banking, etc. India's historical experience suggests that for these partnerships to succeed, state actors need the proper incentives to cut costs and improve efficiency. Public good investments should also be a key consideration. As the Indian case illustrates, public and private authorities will have different incentives to implement improvements and innovations with broader effects. Haldea G. (2013) there is a broad consensus in India that Public Private Partnership is the way forward for creation of world class highways. Since an enabling framework is a pre- requisite for attracting competitive private investment, the model documents, the appraisal process and the viability gap funding scheme have been adopted as the supporting pillars of a strong and sustainable PPP framework in the highway sector. Saravanan P., discuss that PPP deal as well assessing the risks associated with them in an infrastructure framework. Each of these models can be investigated further for risk return patterns and advantages gained to government and the private enterprise to arrive at well structured PPP contracts.

4. Research Methodology:

This research paper is purely based on secondary data collected from various sources. All the data generated from Government of India official website namely http://www.pppinindia.com and this is the official website of the committee on infrastructure, Planning Commission, ministry of finance and Investment Commission of India. The data available on these websites are regularly updated and the website is directly under the control of Ministry of Finance, Government of India. The other major tools for the collection of the information has been from available literature as, journals, books, and news of Govt. of India and states Govt. related to the PPP.

5. Result & Discussions:

The results & discussion of the study explain various PPP's assistants' policies which are directly as well as others form involving PPP projects. The study can best be explained under the following heads:

5.1. Public Private Partnership Appraisal Committee (PPPAC): PPPAC has been approved on 27th October 2005 in meeting of Cabinet Committee on Economic Affairs (CCEA). In the blow figure we select last five years different sectors PPP projects which are approved by PPPAC.

Years →	2008-09		2009-10		2010-11		2011-12		2012-13	
Sectors ↓	No. of Projects	Total Projects Cost	No. of Projects	Total Project Cost	No. of Projects	Total Project Cost	No. of Projects	Total Project Cost	No. of Projects	Total Project Cost
Highways	90	86336.29	123	123691.50	168	168190.60	179	175013.64	224	235437.56
Railways	01	8500.00	01	8500.00	01	8500.00	01	8500.00	01	8500.00
Ports	07	3683.25	10	11346.90	10	11346.90	18	18383.00	26	22477.70
Civil Aviation	02	1000.00	02	1000.00	02	1000.00	02	1000.00	02	1000.00
Tourism	01	148.87	01	148.87	01	148.87	01	148.87	01	148.87
Housing	-	-	-	-	17	8342.05	17	7299.00	17	7299.00
Sports Stadia	-	-	-	-	05	2475.00	05	2475.00	05	2475.00
Total	101	99668.41	137	144687.27	204	200003.42	223	2128195.51	276	277338.30

Table No. 2 Source – Annual Report, Ministry of Finance (Budget Division, 2008-13), GOI. (Amount Rupee in crore).

Above figure shows that PPPAC has approved projects during the 2008-09,2009-10,2010-11,2011-12, and 2012-13 financial years. In 2008-09 PPPAC has approved total 101 no. of projects, total amount of Rs.99668.41 crore Among them highway was the top most sector for which Rs.86336.29 crore allotted for the 90 projects. Till now 2012-2013 (up to December 2012) PPPAC Rs. 235437.56 crore allotted for 224 approved of highway projects. So the highway sector has been minting top position. Along with other sectors like In Railway approved one project an amount of Rs.85000.00 crore, In Port sectors 26 projects approved an amount of Rs. 22477.70 crore, In civil Aviation sector 02 Project approved an amount of Rs. 1000.00 crore, In Tourism sector 01 approved an amount of Rs.148.87 crore, In housing sector 17 projects approved an amount of Rs.7299.00 crore and in sports stadia sectors 15 project approved an amount of Rs. 2475.00 crore. On the basis of the figures, we conclude that the PPPAC has been doing substantial job in the field of PPP and is transforming Indian economy. The huge amount spent on projects under PPP seldom speaks volume its success.

5.2. Viability Gap Funding (V.G.F.): The GOI announced Viability Gap Funding (VGF) scheme in budget 2005-06. This major scheme promote PPP in various infrastructure sectors include roads, seaports, airports, railways, convention centers. Keeping in mind the success of the projects many more new sectors like storage, internal infrastructure in national investment and manufacturing zones. This scheme aim support infrastructure projects which are economically justified but short of financial viability. The total VGF provided under the scheme is up to 20% of the total capital cost of the project. Empower institution (Under the finance ministry) sanctioned Viability Gap Funding up to Rs.100 crore for each project. The Empowered Committee sanctioned proposals up to Rs.200 crore, And the Empowered Committee with the approval of Finance Minister sanctioned proposal amounts exceeding Rs.200 crore.

Si. No.	Sector	No. of Projects	Total Project Cost (Rupees in Crore)	VGF (Rupees in crore)
1	Road	131	57449.79	1130.40
2	Education	10	207.40	41.48
3	Power	2	664.70	132.90
4	Metro	2	19474.00	3894.08
5	Airport	1	354.65	70.93
	Total	146	78150.54	15448.79

Table No. 3 Source – Annual Report, Ministry of Finance (Budget Division) GOI. (Amount Rupee in crore)

It is evident from the above table shows that under the scheme since its constitution, 146 projects have been granted approval with Total project cost of Rs. 78150.54 crore and VGF amount support of Rs.15448.79 crore under the Scheme and Viability Gap Funding (VGF) Rs.902.96 crore has been disbursed. In case of sector wise road sector projects (131) have highest benefited by VGF Scheme and education sector projects (10) have second highest. And power, education and airport sector also have 2, 2 and 1 VGF Scheme project. But in term of VGF amount metro sector have top benefited 3894.08 Rs.crore and second topper road sector 1130.40 Rs.crore. After that power, airport and education sector also have 132.90, 70.93 and 41.48 Rs.crore amount VGF scheme. Government has provision of 10,000.00 crore for the 12th Five Year Plan (2012-17).

5.3. India Infrastructure Project Development Funds (IIPDF): The ministry of finance in 2007 establishment of a mechanism to support the project development expenditure on PPP projects to accelerate the process of project preparation. This IIPDF assist up to 75% of the project development expenses as ordinarily. The IIPDF assists the PPP projects in stage of identification and preparation.

Year	**Amount allotted (Rs. in Crore)**
2008-2009	1.32
2009-2010	7.55
2010-2011	7.00
2011-2012 (December 2011)	2.56

Table No. 4 Source – Annual Report, Ministry of Finance (Budget Division) GOI. (Amount Rupee in crore)

Above table shows that year's wise IIPDF amount allotted on PPP projects. IIPDF assistance amount Rs.60.06 crore. Rs.1.32 crore, Rs.7.55 crore and Rs.7.00 crore respectively has been disbursed under the scheme in 2008-2009, 2009-2010 and 2010-2011. Around Rs.2.56 crore has been disbursed during 2011-2012, up to December 2011. These entire amounts have been allotted on 49 projects approved. An amount of Rs.4.00 crore has been provisioned for the FY 2013-14.

6. Emerging Areas/ Scope of PPP in India:

PPP in India has a very bright scope and if implemented and monitored successfully, it can transform the shape of Indian economy. The major areas where PPP can be of help are:

- High quality of service Delivery
- Vocational Education & Community collages
- Higher technical and professional Education
- Research & Development in the field of Medical Sciences
- Research & Development in the field of Information Technology
- Increasing investment on public infrastructure
- Delivering capital projects faster
- Improving Budget certainty
- Higher Productivity and minimizing risk of Government
- Accelerating and making efficient Delivery system
- Customer delightment
- Recover return on investment (ROI) for Private sector

7. Findings & Suggestion:

The following findings & suggestions were made based on the basis of above discussion. The PPP assistant scheme like VGF, IIPDF, IIFCL are revels positive impact on infrastructure projects. These schemes attract to private sector for return on investment from PPP projects. Still there is a need of healthy coordination & cooperation between central and state level government. The healthy coordination speedup development of infrastructure and delivery of services and it stops the unnecessary delay, litigation of projects. The investment in infrastructure sectors more than services projects. The national level of government is most appropriate, on the other hand, for some infrastructure services such as construction of highways, airports, sea ports and power generation & distribution. Management should be handled to utilize a large amount of capital to develop infrastructure which are feared to be critical in development of economy. That's why well management would be needed there. In India still there are huge recruitment of developing Road infrastructure and Power generation sector, so in these sectors Government must increase % amount of viability gap funding. On the financing side, Government should need to arrange a attractive financial institution and better infrastructure bond market would be succeed to rapid in development. There are no clear responsibilities between public and private sector in time of projects implementation. The allocation of responsibilities between the levels of government should be cleared and corresponding authority for the subject matter should accompany the allocation of responsibility.

8. Conclusion:

Thus on the basis of the above findings, it can easily be suggested that the government of India must be ready with more funding and financing for the areas that have been listed above. The GOI should not hesitate in making private sectors a party to the development and growth. However the participation must be on sustainable basis and giving mutual respect to the partners. The government should also evolve mechanism to foster the process of delivery system fast and quick and if possible the bureaucratic hurdles should be minimized. This paper maintains that for effective and efficient functioning of PPP in the infrastructural and various PPP financial supportive schemes. Scheme like VGF, IIPD and IIFCL are very beneficial for PPP scheme. As well as explore the various emerging areas, which will be helps to public and private both sectors to develop the best markets with facilitates to the society.

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