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Evolution and Need for PPP in India

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Abstract: *The present research paper is an attempt to study the evolution and need for PPP in India and for the same research paper is divided into different parts. Section I covers the Introduction of PPP. Section II deals with definition, Section III shows the review of literature. Section V is dedicated to evolution of PPP in India followed by section VI which highlights the need for PPP in India. Section VII outlines the advantages of a PPP project to the government and to the Private sector. The last section concludes the research paper.*

Key words: *Public Private Partnership, Foreign Direct Investment, Infrastructure, Resources*

1. Introduction of PPP

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 find itself helpless to cope with the growing demands of the economy on it's own funds. Hence, need is to look for other sources of development and private participation through PPP which is the best viable option available. The Planning Commission in the twelfth Five Year Plan, has anticipated an investment of over ₹ 55.75 lakh crore at current costs (or about US $ 1 trillion) amid the twelfth Plan (2012-17). It is projected that private investment is expected to rise substantially from 37 % in 11th FYP to 48 % in 12th FYP.

PPP ventures guarantee proficient utilization of assets, accessibility of cutting edge innovation, better venture outline, ideal risk distribution, enhanced deliverance of public services and push to public sector reforms. Under the PPP arrangement, the government part gets re-imagined as one of the facilitators and empowering agents, while the private partner assumes the part of financer, manufacturer and operator of the services. PPPs expect to join the abilities, skill and experience of both people in public and private segments to convey higher gauges of services to clients or residents. People in public sector gives guarantee as far as steady administration, nationals' bolster, financing furthermore deals with social, natural and political risks. The private division brings operational proficiency, creative advanced techniques, administrative efficiencies, access to extra funds, development and business risk sharing.

Governments globally have sought to enhance the participation of the private sector in the delivery of public services. These initiatives have taken numerous structures, for example, the out and out privatization of beforehand state-possessed businesses, contracting out of specific services and the utilization of private money in the arrangement of social infrastructure (Nielsen, 1997; Dulaimi, Alhashemi, Ling and Kumaraswamy, 2010). Public Private Partnership (PPP) offers a long haul, maintainable way to deal with enhancing public utilities conveyance and social base, upgrading the estimation of public resources and improving utilization of citizens' funds (Akintoye, Beck and Hardcastle, 2003).

This thought of public and private sector going into joint venture is not new and numerous names and short forms (BOT, BOOT, DBOT, PFI, PPP and so forth) have been used for the same policy of providing public services and infrastructure facilities which had formerly been delivered by public sector alone. "In the United Kingdom, the Private Finance Initiative (PFI) has tried to come across a solution to the difficulty of securing the essential investment at a time of severe public expenditure restraint" (Akintola et al, 2003).

Such arrangements between the public and private segment are currently acknowledged as a contrasting option to the conventional state arrangement of public services (Kent, 1998). Apparently, this joint methodology permits public area customer and the private segment supplier to mix their extraordinary aptitudes and to accomplish a result that neither one of the party's could accomplish alone (Akintoye, Hardcastle, Beck, Chinyio and Asenova, 2003:b).

2. Definition of PPP

PPPs comprehensively allude to long haul, legally binding organizations between the public and private part offices, uncommonly focused on towards financing, planning, executing, and working services and amenities that were customarily given by the Government and/or its offices. These community oriented endeavors are worked around the ability and limit of the undertaking accomplices and depend on a legally binding assertion, which guarantees suitable and commonly concurred portion of assets, dangers, and returns. This methodology of creating and working open utilities and framework by the private segment under terms and conditions pleasant to both the legislature and the private area is called PPP.

Writings about Public-Private Partnership (PPP) demonstrate that PPPs are hard to characterize (Evans and Bowman, 2005; Hodge, 2005; Jefferies and McGeorge, 2008). Bettignies and Ross, (2004) point to the way that PPP has been characterized distinctively by scholastics, public offices and global associations, with the outcome that an all inclusive definition to which all would concur is subtle. Weihe (2008) presumes that a legitimate meaning of PPP, one that envelops all the diverse varieties of the idea at present being used, is still not coherently conceivable.

Hodge and Greve (2005) characterized PPP as institutional collaboration between the public and private segments intended to expand the proficiency and viability of public utilities deliverance. Hayllar (2010) characterizes PPP as a legally binding game plan including the private division in the conveyance of public utilities taking into account an organization methodology where the duty regarding the deliverance of services is shared between the public and private segments, both of which convey their complimentary aptitudes to the undertaking. Van Ham and Koppenjan (2001) characterized PPP as a collaboration or something to that affect of the toughness amongst open and private performers in which they together create items and services and share risks, costs and resources that are connected with these products.

3. Review of Literature

Lakshmanan, (2008) found that stable macroeconomic framework, sound regulatory structure, investor friendly policies, sustainable project revenues, transparency and consistency of policies, effective regulation and liberalisation of labour laws, and good corporate governance are the basic requirements, which define the success of the PPP model.
Tharun Shastry L (2014) discussed that an effective PPP 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.

4. Evolution of PPP in India

In India there is no exact date and year which could speak of the beginning of PPP but it is said that the PPP story began with private sterling investments in Indian railroads in the latter half of the 1800s. By 1875, about £95 million was put by British organizations in Indian "ensured" railroads. Then again we could follow it to the mid 1900s, when private makers and merchants developed in power sector in Kolkata (Calcutta Electric Supply Corporation) and in Mumbai with the Tata playing a prominent role in starting the "Tata Hydroelectric Power Supply Company" in 1911.

PPP story started with private sterling interests in Indian railways in the last 50% of the 1800s. A new wave in PPP was felt when a policy was made by the Central government in 1991 and it was decided to allow private participation in the Power sector which opened up the doors for independent power producers. The National Highways Act, 1956 was altered in 1995 to empower private support. In 1994, through a focused offering process, licenses were conceded to eight cell cellular telephone utility administrators in four metro urban areas and 14 administrators in 18 state circles.

The Major shift in PPP was experienced in true sense when the Infrastructure Development Finance Company (IDFC) was incorporated on 30 January 1997 in Chennai under the initiative of the then Finance Minister P Chidambaram. The firm, promoted by the government of India, was laid down upon the recommendations of the "Expert Group on Commercialisation of Infrastructure Projects" under the chairmanship of Rakesh Mohan. This was the government's serious initiative towards allowing private participation in infrastructure development by utilizing their expertise, capital and managerial skills. There were enactment of many other legislations in various fields which brought a remarkable change in the PPP arena. Notable among them are the Electricity Act, 2003; the amended National Highways Authority of India Act, 1995; the Special Economic Zone Act, 2005; and the Land Acquisition Bill etc. Various new sources of funding projects by Asian Development Bank (ADB), Viability Gap Funding (VGF), India Infrastructure Finance Company Limited (IIFCL), India Infrastructure Project Development Fund (IIPDF) under Economic Affairs department etc paved the way for movement of PPP projects forward. The Prime Minister's office, Planning Commission of India, Department of Economic Affairs, different service sector departments of the government have all played an active role. Various states have also shown enthusiasm in PPP and the notable among them are Maharastra, Madhya Pradesh, Karnataka, Tamil Nadu, Gujarat, Punjab, Delhi, Andhra Pradesh etc. The period between 1997 and 2016 marks two decades for PPP and present NDA government is very enthusiastically taking the reins of PPP forward towards a shining India.

5. Need for PPP

Economic survey 2009-10 brings out the importance of PPP projects, "PPPs provide variety of benefits in terms of investing public capital to draw in private capital and undertake a bigger number of infrastructure projects, introducing Private-sector experience and cost-reducing technologies further leading to efficiencies in operations and maintenance. Hence, other than financial implications, PPPs are unit tools to meet the fundamental obligations of governments to produce higher infrastructure services (with massive externalities), by increasing the answerability of the private sector as a service supplier."

Figure 1. Need for PPP.

The need for PPPs are discussed under the following heads:

Better infrastructure

Numerous writers and academicians have called attention to the fact that inadequate infrastructure influences the overall as well as the personal satisfaction of a country's life style. It is a fact that most government face the problem that public financing is not enough to bridge the gap between infrastructure need and available funds. In this respect, infrastructure development has to rely increasingly on private markets to leverage and mobilise capital.

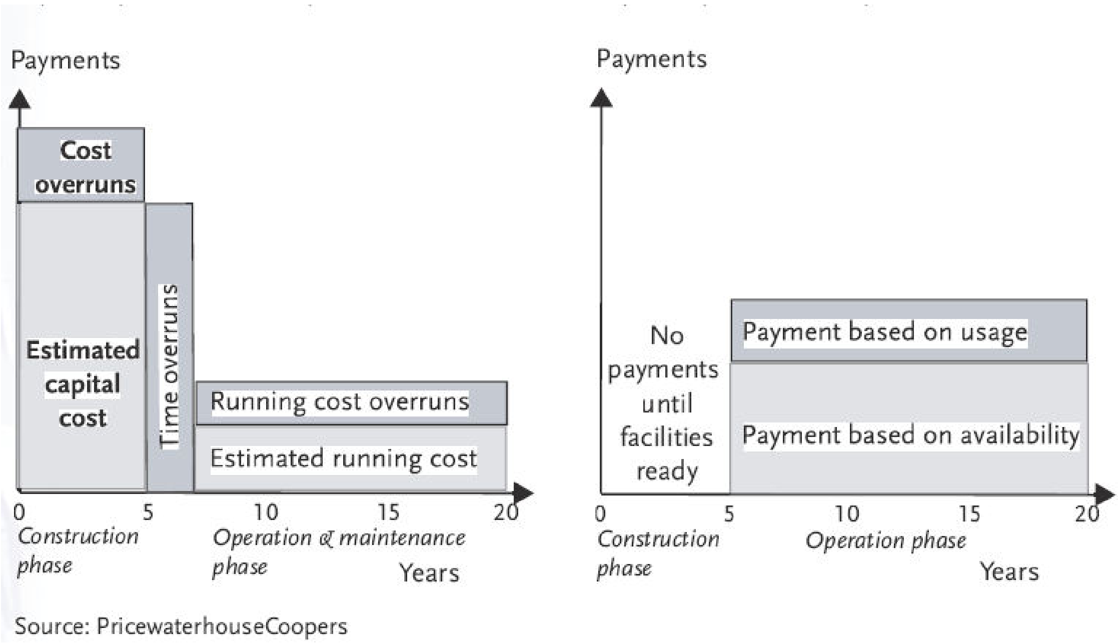
Risk sharing

The private sector is considered to be more proficient in resource acquisition and utilities deliverance than government, and, therefore, it is further bolstering government's good fortune to impart the related risks to the private segment (**Chan** et al., 2009).

Optimum allocation of resources

PPPs can help in the optimum allocation of public resources for the development of infrastructure. Though conventional models of public acquirement concentrate on accomplishing the most reduced forthright expenses in conveying infrastructural ventures infrastructural projects, PPPs concentrate on delivering cost effectiveness over the duration of the asset – including, in particular, those costs associated with operation and ongoing maintenance. This allows the public sector to recognize value for money for the whole life of the project or service, rather than just in its preliminary construction phase.

Figure 2. Conventional vs. PPP procurement.



Value for money

Value for money, characterized by Grimsey and Lewis (2004) as the ideal blend of entire life cycle costs, risks, finishing time and quality with a specific end goal to meet open prerequisites, is another essential thought particularly for people in public sector (Chan et al., 2009; Grimsey and Lewis, 2004; Li et al., 2005).

Innovations

Development is another imperative idea that the private segment can convey to public utilities. As a rule, people in public sector may not be as inventive similar to the private area. The private division is constantly hunting down new items and utilities to expand their aggressive edge and to save costs (Chan et al., 2009). The private division is likewise made in

charge of guaranteeing that the quality and services deliverance meet pre-concurred quality benchmarks or guidelines for the entire duration of the life of the agreement (Grimsey and Lewis, 2004).

Aid in growth of other sectors

To the government, PPP frees up fiscal funds for other areas of public service and improves cash flow management as high upfront capital expenditure is replaced by periodic service payments and provides cost certainty in place of uncertain calls for asset maintenance and replacement. Consequently, the public funding required for public services can be reduced and redirected to support sectors of higher priority, e.g., education, healthcare, community services, etc. (Chan et al., 2009).

Catalyst for the economy

To the private sector participants, PPP provides access to public sector markets. If priced accurately and costs managed effectively, the projects can provide reasonable profits and investment returns on a long-term basis. Also, these projects tend to be big and therefore know-how from many areas is essential; hence, cooperation among different collaborating parties is encouraged (Chan et al., 2009; Grimsey and Lewis, 2004). Business opportunities are also created, due to the large scope of works that can benefit different sectors (Chan et al., 2009).

More employment generation

Development of infrastructure will need manpower at various levels and hence it will generate more employment opportunities for the people.

Improves image of country

There will be more development of better physical infrastructure and services through PPP and it will create a good impact on tourism and other enthusiast investors.

Increase in GDP

The infrastructure development and better services through PPP will lead to multiplier effect for the economy and hence development of all the sectors will add up to the Gross Domestic Product (GDP) in the Indian economy.

Attract FDI

Scope for investment by private sector in infrastructure will also provide the opportunities to foreign investors to participate and the financial crunch can be meted out easily. The better infrastructure is also a major boost to foreign direct investment (FDI).

Having discussed the need for PPP, it is also important to see the situations under which PPP should be used.

6. Advantages of a PPP project to the government

Encouraging Private sector involvement in the infrastructure sector

- Starting of new sources of capital
- Reduction in direct Public money spending
- State resources could be utilized in other key areas
- Better utilization of managerial efficiency and innovations of Private sector
- Advanced techniques of production and technical-know-how
- Transfer of project risk to private sector
- Opportunities to local business development
- Planned development of infrastructure sectors
- Involvement of financers ensuring project viability

7. Advantages of a PPP project to the Private sector

- Availability of finances available from government and other commercial lenders
- Fixed concession period
- Pre-determined scope of work for the concessionaire
- Pre-determined bidding parameters (VGF/Revenue Sharing/Lease Rent/Premium)
- Land required for the project are available with the implementing authority
- All conditions, specifications, & agreements Pre-decided and frozen prior to inviting bids
- Fair chance to all eligible concessionaire to participate in the infrastructure development
- Pre-determined user charges/tariff and scope of revision from time-to-time.

8. Conclusion

The PPP arrangement has been accepted as a substitute to the overall burden of the Indian Government for the expansion of world-class infrastructure development. The time is right to discuss the sudden arrival and pertinence of PPPs in India's development strategy and investigate real alternatives for economic change. PPPs in India had its own share of obstacles and difficulties but it has been realised that the need of PPP is immense which has been discussed in detail in the research paper. The research paper also tried to bring about the evolution of PPP in India and the advantages it serves to the Government and to the investor.

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