PUBLIC PRIVATE PARTNERNSHIP IN INDIA (P3)

MEANING→***Long-term contract*** between a government agency and a private-sector company –used to finance, build, and operate projects –*public transportation networks, parks, and convention centres.*

- Private party→ bears significant risk and management responsibility, and remuneration is linked to performance.
- Public Sector→ monitors the performance of the private sector and *enforce* the terms of the contract.

NEED OF PPP in India

TO BE COVERED IN THE CLASS IN DETAIL

EVOLUTION OF P3 IN INDIA- Three phases

1. **FIRST PHASE→ 1990 to 2004 :** inception of P3's and key projects primarily in the transport and power sectors.→early initiatives failed to scale up PPP projects in the absence of an integrated approach, clear policy framework, lack of an institutional mechanism and detailed road map for future growth.
2. **SECOND PHASE→ 2004-2011**

   - Private partnerships scaled up. Strong political will to scale up P3 in infrastructure led to the formation of the Committee on Infrastructure chaired by the Prime Minister. –Ensured engagement at the highest level of government.
   - Streamlining the appraisal and approval processes and standardizing of documents –fast roll out of projects.

- Launches of new initiatives –Viability Gap Funding (VGF) scheme, India Infrastructure Finance Company Limited (IIFCL). → increase financial flexibility and capacity in the ecosystem.
- 11th Five Year Plan (2007-21) –performance exceeded expectations → private sector contributed 36.62% of total infrastructure investment. → GDP contribution increased from 5% to 7.3%

3. **THIRD PHASE**→ Current phase**.** Decline in the momentum gained during 2nd phase. Twelfth Year Plan (2012-17) → targets were set with a view to continue on the upward trajectory.

- Stalled projects, lack of investor interest –different stages of construction and operation –dilution in important terms of standard bidding documents, over engineering of project design, aggressive bidding by project developers, financing issues, lack of funding and lack of equity funding. →led to slowdown in P3 project.

ISSUES WITH P3(Economic Survey 2015)

Reasons	According to the Economic Survey 2015, below are the reasons why the P3 is stalled in India:
Over-leveraging	Many companies have been bidding beyond capacity and expecting government to redraw contracts.
Finance	Long term finance for P3 projects dried up due to excessive dependence on banks and lack of proper corporate bond market in the country. Banks –further stressed –high NPAs and governance issues.
Flaws in design	P3's have certain inherent flaws in design →led to stalling eventually→no re-negotiation structures; wrongful risk allocation; focus on fiscal provision rather on efficient service provision; no measure to penalise the providers for poor service; bidders giving highest revenue sharer to government win contract; failed projects don't lead to investigations against bureaucrats while re-negotiated might do so.
Center state coordination	TO BE DISCUSSED IN CLASS WITH GOOD EXAMPLES
Private sector inefficiencies	
Corruption	
Governance issues	

P3 Models:

4 major families of P3 models are→

1. Management contracts →Contractual arrangement for the management of a part or whole of a public facility or service by the private sector. Capital investment not primary focus.
2. Lease contracts
3. Concessions
4. Build-operate-transfer (BOT) and its variants.→ Simple and conventional P3 model.

BOT (Build-operate-transfer) Private players build, operate and maintain infrastructure for a specified period before transferring the asset back to the government. Private players arrange finances while collecting toll revenue or annuity fee from government. Government may or may not undertake risks.

- **Problem→** private players have to fully arrange for finance and NPA riddled banks are reluctant to lend and delays and cost overrun due to environmental clearances and land acquisition worsens finances.
- **Variants→**Build-own-operate (BOO), Build-own-operate-transfer (BOOT), Build-operate-lease-transfer(BOLT), Lease-Develop-Operate(LDO)

EPC (Engineering, Procurement and Construction) model

TO BE DISCUSSED IN CLASS IN DETAIL

Hybrid Annuity Model (HAM)→ As per Economic Survey 2018: Hybrid Annuity Model (HAM) is a **combination of two models**

1. EPC (Engineering, Procurement and Construction) model***(40%)*** → private players construct the road and have **no role in the road's ownership, toll collection or maintenance.** NHAI pays private players for the construction of the road. The Government with full ownership of the road, takes care of toll collection and maintenance of the road.
2. BOT ***(60%)***→*definition given in Types of P3 model.* → private players arrange all the finances for the project, while collecting **toll revenue (BOT toll model)** or **annuity fee (BOT annuity model)** from Government, as agreed. In the BOT annuity model, *the toll revenue risk is taken by the Government*. The Government pays private player a **pre-fixed annuity** for construction and maintenance of roads.

   On behalf of the Government, NHAI (National Highway Authority of India) **releases 40 per cent of the total project cost**. The balance 60 per cent is arranged by the developer. The **developer usually invests not more than 20-25 per cent of the project cost,** while the remaining is raised as debt.

SWISS CHALLENGE MODEL

To be covered in class in detail

Way forward

Recommendations of Vijay Kelkar Committee TO BE DISCUSSED IN CLASS IN DETAIL

Recommendations of NITI Aayog

1. **Infrastructure Committee→** constitute with the Finance Minister or PM as the chairman and secretaries from relevant department as members. –can resolve policy issues on a fast track mode.
2. **Increase Enforcement and Monitoring Efforts→**P3 projects are based on concession agreements – define quantifiable outputs and quality standards.

3. **Strengthen Dispute Resolution Mechanisms→** attempts to encourage alternative resolution mechanisms like amicable settlement, mediation and conciliation –**internal dispute resolution committee** with stakeholders from both public and private side and a neutral *third party, appointed at the beginning of the project*.
4. **Curb Aggressive bidding→** standardized documentation should be updated to include weightage for technical qualification parameters used in RFQ stage to RFP stage to avoid aggressive, unviable bidding.
5. **Recommendation on Financing by HLCFI→** incentivize commercial banks to refinance their medium term debt from construction and initial operation period by insurance and pension funds; **Reorient the role of IIFCL** –shouldn't be limited to replication of bank lending, should be enhanced to include –***credit enhancement to enable bond issuance in infrastructure, increase capacity of lending institutions, Resolve NPAs issue and Operationalize National Investment Infrastructure Fund (NIIF).***
6. **Sector Specific Measures:**

   a. **Highway →** ensure strict adherence to clearances being available before project is awarded; expedite clearance processes by the constitution of an Infrastructure Committee recommended above; develop shelf where land acquisition/environmental clearance are available; expand the current use of HAM and Operation and Maintenance Models.
   b. **Ports→** reorient the Model Concession Agreement (MCA) on the basis of models followed in some minor ports in Gujarat.
   c. **Airports→** create robust framework for ensuring appropriate capital expenditure monitoring by the regulator and approval of capital expenditure only after the due ex-ante analysis**; Removing regulatory uncertainty in 2017** by adhering to a consistent policy as discussed in the "Civil Aviation" section of the "Transport and Connectivity" chapter.
   d. **Telecommunication→** Expedite the implementation of BharatNet by engaging private partnership through the P3 model as per the recommendations of Telecom Regulatory Authority of India (TRAI) released in February 2016.

Exam time revisionary Points

Meaning→ *Long-term contract* between a government agency and a private-sector company –used to finance, build, and operate projects –*public transportation networks, parks, and convention centres.*

3 phases of P3 in India→ 1st phase –initial phase, key projects primarily in transport and power; 2nd phase –private partnerships scaled up, *VGF scheme*, 11th year plan and 3rd Phase→ current year, 12th 5 year plan, slowdown of projects.

Issues→ over-leveraging, aggressive bidding, excessive dependence on finance (NPA problem) and Flaws in design

Model→ 4 families of P3 models- BOT model; ***HAM -40% EPC and 60% BOT***.

Recommendations of NITI Aayog→ infrastructure committee, increase enforcement and monitoring efforts, strengthening dispute resolution mechanism, curb aggressive bidding and recommendation of financing by HLCFI. Sector recommendations – telecommunications, ports, airports and highways.