

De-Mystifying Public-Private Partnerships :
A Possible Framework to Accelerate India's Infrastructure Development

It is now increasingly evident and accepted that India's continued economic performance is predicated on significant investments being made in building its infrastructure. While estimates abound, the order of magnitude of investments required to sustain existing levels of growth have been pegged at around USD 350 billion over the next few years

As a corollary, three key questions need to be answered: First, how do we fund such a large requirement of financial resources? Second, how do we ensure that these resources translate into infrastructure assets in an efficient manner? And, three, how do we ensure that, once created, these infrastructure assets translate into high quality services that benefit the economy, communities and ordinary citizens in an inclusive and transparent manner?

It is the central thesis of this article that the answer to all three questions lies well beyond the traditional role of Government as provider of infrastructure services to a contractual arrangement most commonly referred to as Public Private Partnerships (PPP). Furthermore, that whilst maintaining the centrality of Government in this process, India must exploit PPPs as a key form of delivery to accelerate development of India's infrastructure. At the heart of the debate is the need for a focused, efficient and supportive framework of governance

Over the past decade a large number of projects have been successfully implemented through the PPP format. **Table 1** below provides details of the number of projects that have been implemented under a PPP framework :

Table 1 : Total Investment in Projects by Type and Primary Sector

(US \$ Mn)

Sector	Concession	Divestiture	Greenfield project	Management and lease contract	Total
Energy	0	11	55	0	66
Telecom	0	2	32	0	34
Transport	23	0	45	2	70
Water and sewerage	0	0	1	1	2
Total	23	13	133	3	172

Source: Private Participation in Infrastructure database, World Bank

Note: Most infrastructure projects with private participation fit in one of the four categories indicated in the table. But the boundaries between these categories are not always clear, and some projects have features of more than one category. In these cases projects have been classified in the category that better reflects the risk borne by the private sector

In its loosest form, the PPP framework is simply the securing of public outcomes through contractual arrangements involving multiple stakeholders outside Government. As part of this arrangement, the contracting agency agrees to, in part or in full, design, finance, construct, operate and maintain the infrastructure asset for an extended period of time. Contrary to public opinion, the ownership of assets is less important in these arrangements than the responsibility and obligations for the service to be provided. The role of Government is to ensure that the contracting party satisfies the obligations and fulfils the objectives of the project as agreed

Needless to say, the contours of a PPP contractual arrangement is heavily influenced by the sector, its amenability for commercialization, the objectives that are required to be satisfied through the project, the legal, policy and regulatory framework, project specifics including location, design, risks, environmental and social issues, etc. As no two projects are ever identical, there is a need to “prepare” each project rigorously before being offered for implementation on a PPP basis. As part of the preparation phase, the sensitization of all stakeholders including beneficiaries forms a critical activity. **Table 2** below provides details of the number of projects that have been implemented across sectors

As will be seen, India has developed a large number of projects through these arrangements. More importantly, and as a corollary, there today exists a large number of private agencies, domestic and international, willing to participate in these arrangements. In other words, there is a clear demonstration in evidence that the private sector is a willing participant in PPP arrangements in the country and that there is a substantial level of capacity to undertake projects if offered. The key now for Government to offer a larger array of projects to the private sector so as to develop and improve India’s infrastructure on an accelerated basis

It is also pertinent to note that the extent of leverage achieved by Government in these projects could be as high as 10 times. That is, for every one rupee of investment by Government, the PPP arrangement could mobilize upto Rs 10 for a project. If India is to invest USD 50 bn per annum in its infrastructure, the private sector could mobilize up to USD 40 bn provided projects are structured in a manner that facilitates such investment flows

Table 2 : Total Projects by Primary Sector and Subsector

(US \$ Mn)

Sector	Sub-Sector	Number of Projects	Total Investment
Energy	Electricity	63	17,257
	Natural Gas	3	651
	Total Energy	66	17,907
Telecom	Telecom	34	28,195
	Total Telecom	34	28,195
Transport	Airports	4	848
	Railroads	2	198
	Seaports	14	1,863
	Toll Roads	50	2,434
	Total Transport	70	5,343
Water and sewerage	Potable Water and Sewerage	2	400
	Sewerage	1	25
	Total Water and sewerage	2	2
Total		172	51,848

Source : Private Participation in Infrastructure database, World Bank

The preparation of a project for PPP is a critical activity that often decides the fate of a project in terms of reaching successful closure. In the past, a large number of projects offered for PPP by Government were insufficiently prepared resulting in projects not taking off. With experience, in a number of the more recent projects there is evidence of a more rigorous approach to project preparation. The case in point are projects in telecom, power, roads, urban infrastructure, airports, ports, etc. **Table 3** provides details of the number of projects that have been implemented over the past few years :

Table 3 : Number of Project by Primary Sector

Financial Closure Year	Energy	Telecom	Transport	Water and sewage	Total
1990	0	0	1	0	1
1991	1	0	0	0	1
1992	2	0	0	0	2
1993	3	0	0	0	3
1994	1	4	1	0	6
1995	6	10	1	0	17
1996	6	6	4	0	16
1997	2	4	5	0	11
1998	7	2	8	0	17
1999	8	0	13	0	21
2000	9	0	0	1	10
2001	1	8	3	1	13
2002	3	0	6	0	9
2003	5	0	15	0	20
2004	9	0	6	0	15
2005	3	0	7	0	10
Total	66	34	70	2	172

Source: Private Participation in Infrastructure database, World Bank

Preparing projects for PPP is more expensive than if projects were prepared for implementation departmentally. The level of detailing in design engineering, assessing its financial viability, contractual framework, project financing, environmental and social assessments, etc, have to rigorously establish the feasibility of the project. In the absence of such rigor, Government will find it difficult to support the project, the bidders will add a hefty risk premia and financing agencies will find the project un-bankable. To support Government, IL&FS, for instance, has established a Fund of Rs 500 crores to support project development. As of date, a large number of projects of over Rs 25,000 across a diverse range of sectors : roads, power, ports, water, environmental infrastructure, cluster development, etc, are under active development

Infrastructure projects implemented on a PPP basis provide an innovative framework to secure specific outcomes. For instance, unlike in the traditional approach, the private sector assumes the responsibility, obligation and risks of constructing, operating and maintaining the asset at a specified level of service for a period of up to 30 years. To do so, the projects are typically domiciled in Special Purpose Vehicles (SPV) which is typically a legal entity incorporated under the Indian Companies Act, 1956. Each SPV develops the on-the-ground capabilities to discharge its responsibilities. Under a PPP framework a minimum level of service is guaranteed over an extended period of time. At the end of the period, the asset is handed over to Government free of cost!!

At another level, in addition to delivering a guaranteed level of service, PPP's provide an effective way to enhance the professional and institutional capabilities at the project level. In the present context this is in fact the big constraint in accelerating the development of infrastructure in the country. It is this aspect that is the most exciting part of the PPP story. Because the contract requires the private sector to guarantee a level of service, the SPV becomes a powerful operating entity with a Board of Directors, its own management, staff, operating procedures, and on-the-ground experience. If allowed to grow, these entities will enable a significant acceleration in infrastructure development. As they are already in the business of infrastructure services, Government could easily contract additional projects through them where costs are determined on a transparent and competitive basis. However, for this to happen there is a need for a shift in mind set especially in Government: to treat the private sector as a genuine partner and not merely as a vendor of services

It is also well recognized that an essential ingredient for the successful growth of the infrastructure sector in PPP terms is good governance. Over the past fifteen years significant progress has been evidenced in this regard. And there is no doubt that as a country as we gain more experience in PPP's, the framework of governance will also evolve. However, in the meantime it is critical to ensure that the issue of governance does not inhibit the acceleration of investments in the sector; otherwise we may well end up with an excellent framework of governance but very little to show on the ground. The learnings of the power sector serve as a powerful reminder in this regard

Finally, do PPP's mean a higher price? The answer to this question is in two parts. First, in so far as a typical PPP project is required to adhere to higher levels of service, is more accountable and requires to adopt a full cost recovery model, there is bound to be a difference in the price. If Government were to adopt a similar approach within the traditional system of delivery, it is likely that the delivered price of services would be at a significant premium to the PPP approach. Second, however, the existing level of infrastructure services is sub-optimal. As a result, the ability of Government to price these services is also limited. Thus, the existing system is caught in a viscous circle, of poor services, resulting in poorer recoveries, which in turn results in poor investments. The PPP approach, however, provides a framework for higher quality of services, resulting in higher recoveries, which in turn, enables greater ability to invest and improve the quality of services overtime

Finally, the recovery of investment in a PPP framework could be structured in such a way as to enable cross subsidies between different classes of users. This would imply that sectors of our society, which would otherwise have to do with extremely poor quality of services, or no services, or services at user expenses, could be specifically targeted in a transparent and organized fashion. A large number of PPP projects, which have already been implemented in the country, clearly demonstrate this principle

In summary, the PPP framework provides a sustainable and proven method for Government to accelerate the provision of infrastructure services in our country, to global standards, keeping in mind, the principles of transparency, accountability, equity and inclusiveness. The track record of a large number of PPP projects in the country also establish that the quantum of investments required in the infrastructure sector could be mobilized to meet demand. The challenge now is to make the National Mission