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PPP IN ROAD SECTOR: A STUDY ABOUT INDIA

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I. UNDERSTANDING PPP: (PUBLIC PRIVATE PARTNERSHIP)

The PPP is defined as "the transfer to the private sector of investment projects that traditionally have been executed or financed by the public sector" (IMF, 2004).

The term PPP has not been defined exhaustively. Different organisations / economies may have different views of PPP. The term and level of collaborative efforts guides the entity as being PPP. Essentially the term refer to a contractual agreement between public sector entity and private sector entity towards the achievement of some pre-defined and fixed aim. Normally it includes performance of the past which are commonly the responsibility of the public sector. (Gupta Arjun P (2011).

PPP combines the development of private sector capital and sometimes, public sector capital to improve public services or the management of public or the management of public sector assets. (Michael, 2001).

PPP has been considered as an important vehicle of growth in an economy. It may take various forms to reap the benefits of the Public sector aims trust and private sector's expertise and funds. (Mahalingam Ashwin,2007)

<table>
<tr><th>TYPE OF MODEL</th><th>UNIQUE FEATURES</th></tr>
<tr><td>Build-Own-Operate,</td><td rowspan="3">The private sector designs, builds, owns, develops, operate and manages an asset with no obligation to transfer it to the government</td></tr>
<tr><td>Build-Develop Operate</td></tr>
<tr><td>Design-Construct-Finance-Manage</td></tr>
<tr><td>Buy-Build-Operate</td><td rowspan="3">The private sector buys or leases an existing asset from the government, renovates, modernizes, and or expands it and then operates the asset, gain with no obligation to transfer ownership back to the government.</td></tr>
<tr><td>Lease-Develop-Operate</td></tr>
<tr><td>Wrap-Around Addition</td></tr>
<tr><td>Build-Operate-Transfer</td><td rowspan="3">The private sector designs and builds an asset, operates it, and then transfers it o the government when the operating contract ends, or at some other specified time. The private partner may subsequently rent or lease the asset from the government.</td></tr>
<tr><td>Build-Own-Operate-Transfer</td></tr>
<tr><td>Build-Rent-Own-Transfer</td></tr>
</table>

Source: Public-private partnership, Fiscal affairs Department of the IMF

PPP in Indian context: Public–private partnerships should not be seen as public partnerships and private projects. They should rather be viewed as private partnerships and public projects. (Dr Montek Singh Ahluwalia, Deputy Chairman, Planning Commission, Government of India).

According to Ministry of Finance, Government of India, PPP projects are the based on a contract or concession agreement, between Government or statutory entity on the one side and a private sector company on the other side, for delivering infrastructure service on payment of user charges

While Planning Commission of India states "PPP is a mode of implementing government programmes / schemes in partnership with the private sector. It provides an opportunity for private sector participation in financing, designing, construction, operation and maintenance for public sector programmes and projects."

Hence, we can say that for India PPP projects have stated characteristics in terms of type of alliance between Public and Private sector & the aims to be achieved through this alliance are necessary to be termed as PPP.

A study conducted by the World Bank of 13 states in 2005 found only 85 PPP projects awarded by states and select central agencies (not including power and telecom). Their total project cost is Rs.339.5 billion. An optimistic projection of PPPs growing by say five times between 2004 and 2006, in a country of India's size, that is, around 500 projects, is not very encouraging. The largest number of PPP projects is in the roads and bridges sector, followed by ports, particularly green-field ports. Apart from these two sectors, there are very few PPP initiatives. According to a Morgan Stanley report, more than Rs.1000 billion worth of PPP projects are under development in India. Till October 2006, about 31 proposals have been received under VGF, of which 12 have been given in-principle approval. The proposals are, however, restricted to the ports, roads, highways, and rail segments.

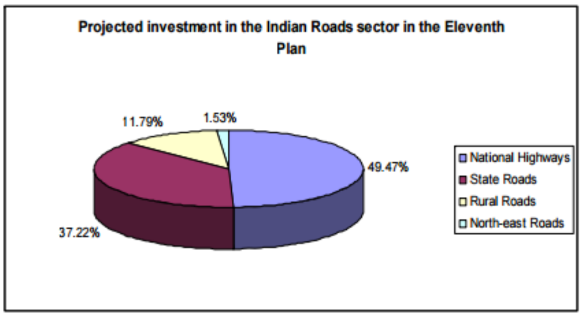
II. ROAD SECTOR IN INDIA

India ranks second in world with a total network of 4.7 million km. Road network in the country has witnessed immense growth in terms of road length, maintenance and upgradation of roads and usage of roads.

Roads and bridges network is projected to grow annually at the rate (CAGR) of 17.4% over FY 12-17.

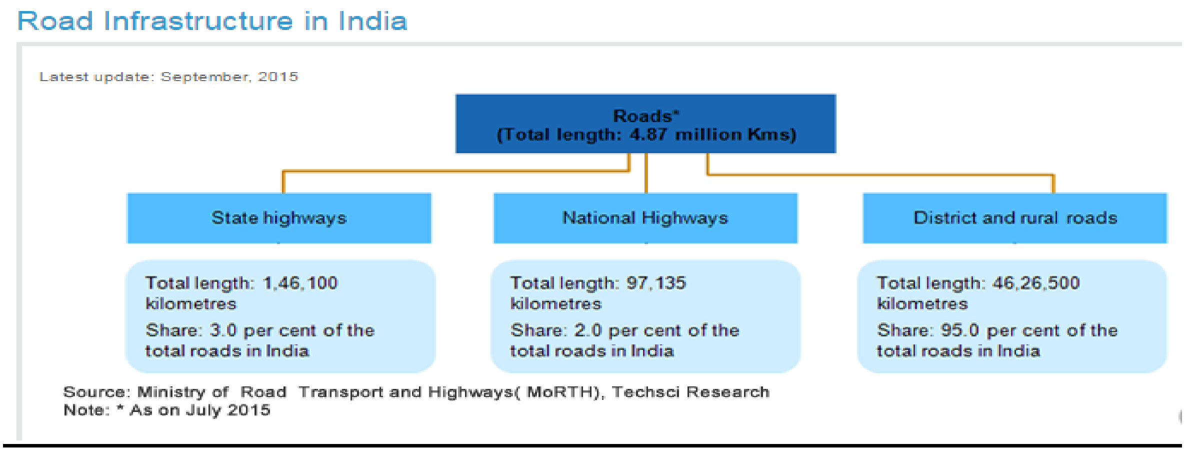
Road sector statistics and investment projected

Relevant statistics	
Length (kms)	
National Highways	68354
State Roads, rural and other roads	599622
Road density (roads in kms/000 people)	
India	2.75
World average	6.7
Road density in terms of land (kms/000 sq kms of land area)	
India	770
World average	841
Status of national and state highways	
Length of national highways as a % of total road network- India	2%
% of total traffic handled by national highways	40%
% of national highways that are four laned	14%
% of state highways that are four laned	1%
% of national highways that are double laned	59%
% of state highways that are double laned	22%



Source: https://www.crisil.com/pdf/infra-advisory/4-indian-infrastructure-roads-key-trends.pdf

Roads infrastructure in India may be studied under three headings: State Highways, National Highways and district and rural roads. Following are the details about the networks.



Source: http://www.ibef.org/industry/roads-india.aspx

III. CRITICAL SUCCESS FACTORS OF ROAD DEVELOPMENT IN INDIA

After independence public sector took initiative of guiding the economy towards its political and economic aims. For decades the role of public sector in the infrastructure projects was taken as a guiding force. After the practices of public private partnerships it was observed that great developmental plans require expertise and funds. Moreover the viability gap funding was the main hurdletoexpedite road development projects. Roads were seen as the networks and channels for economic and social growth. Hence various models of PPP were suggested and practiced. Following are the major models of PPP.

TYPE OF MODEL	**UNIQUE FEATURES**
Build-Own-Operate,	The private sector designs, builds, owns, develops, operate and manages an asset with no obligation to transfer it to the government
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Build-Own-Operate-Transfer	

Source: Public-private partnership, Fiscal affairs Department of the IMF

The main two reasons for adopting PPP for development of road sector projects is: (Asian Development Bank (ADB) (Dec 2006).

3.1 Funding by Infrastructure Deficit

Given the large investment required for infrastructure development and the scarce Government resources, it is unlikely that public funds would be adequate to meet the needs in this context. In addition, the Fiscal Responsibility and Budget Management Act and steps towards fiscal prudence adopted by both the Centre and State Governments have also contributed to the thought process of involving the private sector in the process of infrastructure development in the country.

3.2 Value Addition

Apart from being an alternate source of finance, private sector participation is also viewed as a possible way of value addition in the various aspects of the value chain of infrastructure development including innovation, managerial efficiency in the project management process, adoption of better technology in key infrastructure areas etc.

Even after so many models various projects have seen either closure or were delayed. These reasons led to find out reasons of underperformance for failures of such events:

IV. REASONS FOR PUBLIC SECTOR

(1) Political factors: Public sector is influenced by political influences. The sector looks at the ministries and sanctions for decisions related to progress of projects. It causes undue delays in project life. A heavy bureaucratic delay frustrates the functioning of private sector. The impacts affect the projects.

(2) Financing hurdles: The projects under the supervision of public sector observe strict parameters for financing. At times it becomes difficult for private player to follow the strictness and it becomes a reason of slow growth.

(3) Over-capitalisation: Public sector policies try to overcapitalise the project and hence giving project a rigid financial structure. The over capitalisation increases the burden of interest over the parties involved and hence becomes a reason for closure of projects.

(4) Personnel management: PPP has regularly faced the problem of control of private sector employees by the public sector. Too many bureaucratic channels further causedelaysin the project life cycle and frustration for private player. The problem of coordination further deepns the causes.

V. REASONS FOR PRIVATE SECTOR

1. Profit inclination: Private sector always demands and believes in profit and its maximisation. The sector has always tries to increase profit margins. It has caused disbelief in public sector about the working of private sector.
2. Employment of under-qualified personnel: in their aims towards cist cutting private players at times compromises with the abilities of the employees engaged in the projects. This kind of compromises is unacceptable for the health of the project. Hence public sector imposes strict regulations to control the behaviour. But all such practices further increases the time period in completion of projects.
3. Non-understanding of social needs: Public sector dictates social needs of the economy and also undertakes research studies for betterment of society. Hence the grasp of social benefits is properly understood by

public sector which at times is not that clear to private sector. Hence it may avoid the social benefits of the projects especially if such benefits are causing financial imposes.

VI. CONCLUSIONS

PPPs are thus being seen as an important tool for producing an accelerated and larger pipeline of infrastructure investments, and catching up with the infrastructure deficit in the country.

India's Finance Minister and Planning Commission Deputy Chairman have both emphasized that investing in infrastructure and accelerating its development are vital to growth. To achieve this aim, India's 2012–13 budget reiterated a commitment to spend 50 trillion rupees ($920 billion) on infrastructure development during its 2012–17 five-year plan, with roughly half this investment needing to come from the private sector.

Some, however, doubt the feasibility of the government's five-year infrastructure spending goal, particularly the ability to attract $500 billion in private investment. While India is second only to China in the number of ongoing public-private partnerships (PPPs) and second only to Brazil in PPP investments, bottlenecks remain. (MORTH, *Overview of Indian Roads*.)Presently the government is trying to bring the developmental goals back into shape and to reach our milestones. There is increased budgetary allocation to road sector development. Moreover new financing options are created with wider use of sources available in economy.

Today the impacts of road networks are observed over the economy as the base for economic growth. For rapid growth of economy and the campaigns like Make in India it has become immensely important to develop road networks and to make it a world class service that can cater to the needs of the business and economy. Rapid development is ensured through PPP projects. Moreover many new projects are now opened on EPC basis. Here the roles of public and private sector are further discussed in a manner to allow both to work smoothly. Innovative financial instruments and efforts to develop new sources like insurance sector involvement are being suggested to provide necessary financing options to projects.

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