

Public Private Partnership Models in India

What is PPP?

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- Public Private Partnership means an arrangement between a government/statutory entity/government owned entity on one side and a private sector entity on the other.

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- It is often done for the provision of public assets or public services, through investments being made and/or management being undertaken by the private sector entity, for a specified period of time.

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- There is well defined allocation of risk between the private sector and the public entity.

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- The private entity who is chosen on the basis of open competitive bidding, receives performance linked payments that conform (or are benchmarked) to specified and pre-determined performance standards, measurable by the public entity or its representative.

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What are typically characteristics of PPP?

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- The private sector is responsible for carrying out or operating the project and takes on a substantial portion of the associated project risks

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- During the operational life of the project the public sector's role is to monitor the performance of the private partner and enforce the terms of the contract

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- The private sector's costs may be recovered in whole or in part from charges related to the use of the services provided by the project, and may be recovered through payments from the public sector

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- Public sector payments are based on performance standards set out in the

contract

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- Often the private sector will contribute the majority of the project's capital costs, although this is not always the case

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What are the advantages of PPP?

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- Access to private sector finance
- Efficiency advantages from using private sector skills and from transferring risk to the private sector
- Potentially increased transparency
- Enlargement of focus from only creating an asset to delivery of a service, including maintenance of the infrastructure asset during its operating lifetime
- This broadened focus creates incentives to reduce the full life-cycle costs (ie, construction costs and operating costs)

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What are types of PPP modes?

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- The four major "families" of PPP modes 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 is typically not the primary focus in such arrangements.

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2. **Lease contracts**

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<p>\n</p> <p>Lease Contracts - Asset is leased, either by the public entity to the private partner or vice-versa.</p> <p>\n</p>						
<p>\n</p> <p>\n\n</p> <p>Lease Contracts</p> <p>\n</p>	<p>\n</p> <p>\n\n</p> <p>Public</p> <p>\n</p>	<p>\n</p> <p>\n\n</p> <p>Medium</p> <p>\n (e.g.,</p> <p>10-15yrs)</p> <p>\n</p>	<p>\n</p> <p>\n\n</p> <p>Not the focus</p> <p>\n Public</p> <p>\n</p>	<p>\n</p> <p>\n\n</p> <p>High</p> <p>\n Revenue</p> <p>from</p> <p>Operations</p> <p>\n</p>	<p>\n</p> <p>\n\n</p> <p>Management and</p> <p>maintenance</p> <p>\n</p>	<p>\n</p> <p>\n\n</p> <p>e.g. Leasing of retail outlets</p> <p>at railway stations by Indian</p> <p>Railways</p> <p>\n</p>
<p>\n</p> <p>Build Lease Transfer (BLT) or Build-Own-Lease-Transfer (BOLT)</p> <p>\n</p>	<p>\n</p> <p>Private</p> <p>\n (Leased to</p> <p>the</p> <p>government)</p> <p>\n</p>	<p>\n</p> <p>Medium</p> <p>\n (e.g.</p> <p>10-15yrs)</p> <p>\n</p>	<p>\n</p> <p>Greenfield</p> <p>\n Private</p> <p>\n</p>	<p>\n</p> <p>Low-medium</p> <p>\n Pre-set lease</p> <p>from the</p> <p>government.</p> <p>\n</p>	<p>\n</p> <p>Capex</p> <p>\n</p>	<p>\n</p> <p>Involves building a facility,</p> <p>leasing it to the Govt. and</p> <p>transferring the facility</p> <p>after recovery of</p> <p>investment.</p> <p>\n Primarily taken up for</p> <p>railway projects such as</p> <p>gauge conversion in India in</p> <p>the past, with limited</p> <p>success.</p> <p>\n</p>
<p>\n</p> <p>\n\n</p> <p>\n\n</p> <p>Build-Transfer-Lease (BTL)</p> <p>\n</p>	<p>\n</p> <p>\n\n</p> <p>Public</p> <p>\n</p>	<p>\n</p> <p>\n\n</p> <p>Medium</p> <p>\n (e.g.,</p> <p>10-15yrs)</p> <p>\n</p>	<p>\n</p> <p>\n\n</p> <p>Greenfield</p> <p>\n Private</p> <p>\n</p>	<p>\n</p> <p>\n\n</p> <p>High</p> <p>\n Revenue</p> <p>from User</p> <p>Charges</p> <p>\n</p>	<p>\n</p> <p>\n\n</p> <p>Capex and</p> <p>Operations</p> <p>\n</p>	<p>\n</p> <p>Involves building an asset,</p> <p>transferring it to the Govt,</p> <p>and leasing it back. Here</p> <p>the private sector delivers</p> <p>the service and collects user</p> <p>charges.</p> <p>\n</p>
<p>\n</p> <p>Concessions - Responsibility for construction (typically brownfield / expansions) and operations with the private partner while ownership is retained by the public sector.</p> <p>\n</p>						
<p>\n</p> <p>\n\n</p> <p>\n\n</p> <p>Area Concessions</p> <p>\n</p>	<p>\n</p> <p>\n\n</p> <p>Public</p> <p>\n</p>	<p>\n</p> <p>\n\n</p> <p>Long</p> <p>\n (e.g. 20-30</p> <p>yrs)</p> <p>\n</p>	<p>\n</p> <p>\n\n</p> <p>Brownfield/</p> <p>Expansions</p> <p>\n Private</p> <p>\n</p>	<p>\n</p> <p>\n\n</p> <p>High</p> <p>\n Tariff</p> <p>revenue</p> <p>\n</p>	<p>\n</p> <p>\n\n</p> <p>Design, finance,</p> <p>construct,</p> <p>manage, maintain</p> <p>\n</p>	<p>\n</p> <p>\n\n</p> <p>Private sector is responsible</p> <p>for the full delivery of</p> <p>services in a specified area,</p> <p>including operation,</p> <p>maintenance, collection,</p> <p>management, and</p> <p>construction and</p> <p>rehabilitation of the system.</p> <p>\n Operator is now</p> <p>responsible for all capital</p> <p>investment while the assets</p> <p>are publicly owned even</p> <p>during the concession</p> <p>period. The public sector's</p> <p>role shifts from being the</p> <p>service provider to</p> <p>regulating the price and</p> <p>quality of service.</p> <p>\n e.g water distribution</p> <p>concession for a city or area</p> <p>within the city.</p> <p>\n</p>
<p>\n</p> <p>\n\n</p> <p>Build-Operate-Transfer Contracts - Responsibility for construction (typically greenfield) and operations with the private partner while ownership is retained by the public sector.</p> <p>\n\n</p> <p>\n</p>						
<p>\n</p> <p>Design-build-operate (DBO)</p> <p>\n</p>	<p>\n</p> <p>Public</p> <p>\n</p>	<p>\n</p> <p>Short-medium</p> <p>\n (e.g. 3-5</p> <p>yrs)</p> <p>\n</p>	<p>\n</p> <p>Greenfield</p> <p>\n Public</p> <p>\n</p>	<p>\n</p> <p>Medium-High</p> <p>\n Tariff</p> <p>revenue</p> <p>\n</p>	<p>\n</p> <p>Design,</p> <p>construct,</p> <p>manage, maintain</p> <p>\n</p>	<p>\n</p> <p>Not very common in India.</p> <p>Typically financing</p> <p>obligation is not retained by</p> <p>the public sector.</p> <p>\n</p>

\n Build-operate-transfer (BOT)/ \n\n Design-Build-Finance-Operate-Transfer (DBFOT) \n	\n Public \n	\n Long \n (e.g. 20-30 yrs) \n	\n Greenfield \n Private \n	\n High \n Tariff revenue \n	\n Design, finance, construct, manage, maintain \n	\n Most common form of BOT concession in India. \n e.g. Nhava Sheva International Container Terminal, Amritsar Interstate Bus Terminal, Delhi Gurgaon Expressway, Hyderabad Metro, Salt Lake Water Supply and Sewage Disposal System. \n
\n Build-operate-transfer (BOT) Annuity \n	\n Public \n	\n Long \n (e.g. 20-30 yrs) \n	\n Greenfield \n Private \n	\n Low \n Annuity revenue / unitary charge \n	\n Design, finance, construct, manage, maintain \n	\n This has been adopted for NHAI highway projects in the past. More recently, it is the preferred approach for socially relevant projects where revenue potential is limited. \n e.g. Tuni Anakapalli Project, Alandur Underground Sewerage Project \n
\n \n\n Build-own-operate Transfer (BOOT) Contracts - Private partner has the responsibility for construction and operations. Ownership is with the private partner for the duration of the concession. \n						
\n Build-own-operate-transfer (BOOT) or DBOOT \n	\n Private \n	\n Long \n (e.g. 20-30 yrs) \n	\n Greenfield \n Private \n	\n High \n Tariff revenue \n	\n Design, construct, own, manage, maintain, transfer \n	\n Most common form of BOOT concession in India. \n For example, Greenfield minor port concessions in Gujarat are on a BOOT basis. \n
\n Build-own-operate (BOO) \n	\n Private \n	\n Perpetual \n	\n Greenfield \n Private \n	\n High \n Tariff revenue \n	\n Design, finance, construct, own, manage, maintain \n	\n Under this structure the asset ownership is with the private sector and the service / facility provision responsibility is also with the private sector. \n Not common in India. \n

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What are the various Government incentives for PPPs?

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The Government has facilitated the PPP sector by offering:

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 • **Viability Gap Funding (VGF) subsidy** - Viability Gap Funding of upto 40% of the cost of the project can be accessed in the form of a capital grant.
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 • **India Infrastructure Project Development Fund (IIPDF)** - Scheme supports the Central and the State Governments and local bodies through financial support for project development activities (, feasibility reports, project structuring etc) for PPP projects
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 • **IIFCL** - long-term debt for financing infrastructure projects that typically involve long gestation periods since debt finance for such projects should be

of a sufficient.

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- **Foreign Direct Investment (FDI)** - upto 100% FDI in equity of SPVs in the PPP sector is allowed on the automatic route for most sectors.

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What is the VGF?

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- The scheme aims at supporting infrastructure projects that are economically justified but fall marginally short of financial viability.

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- Support under this scheme is available only for infrastructure projects where private sector sponsors are selected through a process of competitive bidding.

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- The total Viability Gap Funding under this scheme will not exceed twenty percent of the Total Project Cost; provided that the Government or statutory entity that owns the project may, if it so decides, provide additional grants out of its budget, upto a limit of a further twenty percent of the Total Project Cost.

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- VGF under this Scheme is normally in the form of a capital grant at the stage of project construction.

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What is IIPDF?

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- The IIPDF would assist ordinarily up to 75% of the project development expenses.

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- The IIPDF will be available to the Sponsoring Authorities for PPP projects for the purpose of meeting the project development costs which may include the expenses incurred by the Sponsoring Authority for achieving Technical Close of such projects.

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- On successful completion of the bidding process, the project development expenditure would be recovered from the successful bidder.

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- The procurement costs of PPPs, particularly costs of engaging transaction advisory services, are significant and often burden the budget of the Sponsoring Authority.

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- Department of Economic Affairs (DEA) has identified the IIPDF as a mechanism through which Sponsoring Authority can source funding to cover a portion of the PPP transaction costs, thereby reducing the impact of costs related to such procurement on their budgets.

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- From the Government of India's perspective, the IIPDF must increase the quality and quantity of bankable projects that are processed through the Central or States' project pipeline.

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What is the India Infrastructure Finance Company (IIFC)?

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- There is urgent need for providing long-term debt for financing infrastructure projects that typically involve long gestation periods.

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- Debt finance for such projects should be of a sufficient tenure which enables cost recovery across the project life, as the Indian capital markets were found deficient in long-term debt instruments;

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- IIFC was set-up to bridge this gap.

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What are the recommendations of Kelkar Committee?

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- **Periodic reviews** - Such reviews should ideally therefore be done frequently, perhaps once every three years.

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- **Change in attitude and in the mind-set** - The Committee urges all parties concerned to foster trust between private and public sector partners when they implement PPPs.

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- The Government may take early action to **amend the Prevention of Corruption Act, 1988** which does not distinguish between genuine errors in decision-making and acts of corruption.

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- **Structured capacity building programmes** for different stakeholders including implementing agencies and customized programmes for banks and financial institutions and private sector need to be evolved. The need for a **national level institution to support institutional capacity building activities** must be explored.

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- **Optimal allocation of risks across PPP stakeholders** - Project specific risks are rarely addressed by project implementation authorities in this “One-size-fits-all” approach.

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- A rational allocation of risks can only be undertaken in sector and project-specific contexts. Committee also emphasizes that a generic risk monitoring and evaluation framework should be developed encompassing all aspects across project development and implementation lifecycle.

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- The Committee recognizes the need for a quick, equitable, efficient and enforceable **dispute resolution mechanism for PPP projects**.

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- The authorities may **be advised against adopting PPP structures for very small projects**, since the benefits of delivering small PPP projects may not be commensurate with the resulting costs and the complexity of managing such partnerships over a long period.

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- **Unsolicited Proposals (“Swiss Challenge”)** may be actively **discouraged** as they bring information asymmetries into the procurement process and result in lack of transparency and fair and equal treatment of potential bidders in the procurement process.

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- The Committee is of the view that since state owned entities SoEs/PSUs are essentially government entities and work within the government framework, they should not be allowed to bid for PPP projects.

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- PPP should not be used as the first delivery mechanism without checking its suitability for a particular project.

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- Monetisation of viable projects that have stable revenue flows after EPC delivery may be considered.

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- **Equity in completed, successful infrastructure projects may be divested by offering to long-term investors**, including overseas institutional investors as domestic and foreign institutional investors with long-term liabilities are best suited for providing such long-term financing, but have a limited appetite for risk.
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- Improving a PPP project's risk profile so that it is more suitable for overseas and domestic long-term investors can be accomplished through partial recourse to credible third-party institutions. This could be implemented through a **partial credit guarantee or cash flow support mechanisms**.
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- It is necessary to explore options for sourcing long term capital at low cost. Towards this, the Committee recommends, encouraging the banks and financial institution to issue **Deep Discount Bonds or Zero Coupon Bonds (ZCB)**. These will not only lower debt servicing costs in an initial phase of project but also enable the authorities to charge lower user charges in initial years.
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