International Journal of Advanced Research in Commerce, Management &Social Science (IJARCMSS)
ISSN :2581-7930, Impact Factor : 6.809, Volume 06, No. 01(II), January-March, 2023, pp 115-119

ROLE OF PUBLIC PRIVATE PARTNERSHIP (PPP) MODEL IN INFRASTRUCTURAL DEVELOPMENT IN INDIA AND IT'S FINANCING

Prof. Devinder Narain*
Adesh Kumar**
Dr. Somprabh Dubey***

ABSTRACT

Adequate infrastructure plays an important and vital role in the development and growth of any nation. A large extent of its development and growth would depend upon the availability of infrastructural facilities. Infrastructure not only plays an important role in the development process but also it also contributes a lot in improving the well-being and standards of living of the countrymen. It ensures a higher growth rate of the economy and leads an economy on the path of new heights of success and sustainable development. Fast pace of growth for any nation or economy is not possible without having the adequate facilities of infrastructure. A huge amount of fund and capital requires to develop physical infrastructure like transportation (roads, railways, waterways airways etc.) and sanitation network and other necessary infrastructure. It may lead to build up the monetary pressure on public authorities because it requires a huge capital expenditures. Developing and an aspirant country like India needs developed and improved infrastructural facilities in order to maintain uninterrupted flow of logistics across the country. Therefore, in India Public-Private Partnership (PPP) model can play a pivotal role to foster the growth story. As India is developing its economy and a massive urbanization process is taking place. It all needs a huge quantum of capital. The present study tries to point out the active role of PPP model in financing the massive infrastructural process. PPP model has reduced the cost of capital and it is easily accessible and approachable. Not only in India but also PPP model is being used by many countries as it allows introducing new entrants and players in the market. Thus, it enhances and allows the availability of substantial fund for the Government.

Keywords: *Physical Infrastructure, Economic Strain, Public-Private Partnership, Sustainable Funds.*

Introduction

A sustainable and qualitative infrastructure is the first requirement for the purpose of rapid pace of economic development of any nation. There must be sufficient amount of funding alternatives, sustainable investment alternatives, technical innovations, skilled manpower and efficient for project execution. To arrange and manage all these requirements on its own for the public authorities is not quite possible. This constrain brings them together to join hands for achieving the common goal that is the development of the country. PPP model is not only for large infrastructural projects but also these can be used for the purpose of socio-economic projects also.

PPP model is not beneficial only for the government or other public authorities but the private sector can also avail the various benefits like tariffs and concessions in Government policies.

* Senior Director, Corporate Relations, Shobhit University, India.
** Assistant Professor, School of Business Studies & Entrepreneurship, Shobhit University, Gangoh-Saharanpur, U.P., India.
*** Associate Professor and Head, School of Business Studies & Entrepreneurship, Shobhit University, Gangoh-Saharanpur, U.P., India.

Need of well-developed and equipped infrastructure is being universally acknowledged as the key driver and factor of the growth. It is associated with the tangible assets such as roads, highways, waterways, railways, power transmission lines and aviation etc. The growth of India is not only based on tangible infrastructure but also a developed social and digital infrastructure play a vital role in it.

Union Budget-2023 has given a powerful thrust to all three dimensions of infrastructure development. It tries to bring them together, put their efforts together to accelerate inclusive and holistic growth. The investment under such PPP model will not only create the better infrastructure but also generate jobs and employment. PPP model will definitely encourage all the stakeholders to contribute in nation building in making of five trillion economy by the year 2025.

Objectives of the Study

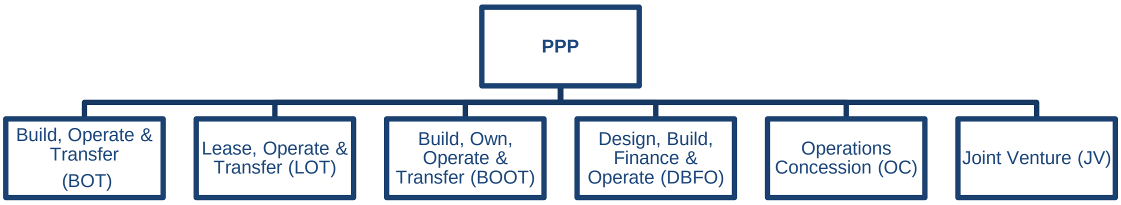
- To assess the role of PPP model in infrastructure development;
- To study the various models of PPP financing in India; and
- To study the extent of financing to the infrastructure Development through PPP model.

Public-Private Partnership (PPP): An Overview

Public-Private Partnership envisages and offers an entirely different and unique way of involving private and corporate sector in the mission goal of nation building. It may have multifaceted dimensions like accelerating the delivery of logistics from origin to destination points. The philosophy and concept of this model is based on creating joint ventures with the private sectors that is why it exhorts the rendering of high quality services with the optimum usage of scarce resources. The high annual growth rate in GDP was aimed in 11th Five Year Plan. It was estimated that the proportion of infrastructural investment would be massive. For the purpose of not hampering other priority sector development project, it would be advisable to think beyond the public authorities funding resources. Thus, it leads to join hands with the private sector. PPP model will definitely address this challenge.

Although the participation of private sector in such arrangement is not quite possible yet it can be done. There must be a regulatory and policy framework for enabling the private partners in order to protect their vested interested and optimum return at affordable degree of risk involvement. It has to give an assurance of an adequate service quality, reasonable and affordable pricing and facilitating the government in procuring the logistics and money. Practically, these things are not as easy as it seems to be. Meeting out and fulfilling all such conditions are difficult. There are conflict of interests of the multiple stakeholders (private and public both), risk mitigation arrangements. All these are very much complex and procedural and sometimes it may lead to the exhaustion of resources and time. It requires a well-defined preparatory work and regulatory framework, selecting emerging and profitable projects, choosing the stable private partners and preparation of sustainable strategic plans.

Models of Public-Private Partnership (PPP)



- **Build, Operate & Transfer (BOT):** This is the category under which the prime responsibility of the private partners and stakeholders are to design, build, operate only during the agreed contracted period and also transfer back hand supports and facilities to the public sector. It is expected that private partners will bring and contribute the finance resources for the ongoing or future projects, construct them and maintain them in a cost-effective manner. In such case, the public sector will have to either pay a rental value for using these facilities or permit to the private partners to charge and collect revenue from the users of such facilities. For example- The national highway projects contracted out by NHAI under PPP mode is an example.
- **Lease, Operate & Transfer (LOT):** This is an arrangement where an already existing facility or infrastructure under the operations is transferred or given on lease to the private sectors for a substantially longer period on some mutually acceptable terms and conditions. On expiry of the agreed period, the asset can be transferred back to the public authorities or the agreement may

be renewed with existing terms and conditions or with the modified terms and conditions, as the case may be. For example-Leasing on a college building/hospital or some other entities to the private partners along with its equipment's, furniture, workforce by entrusting the power of ots management and control.

- **Build, Own, Operate & Transfer (BOOT):** This can be termed as a variant of the BOT model. But there is a difference in terms of the ownership of newly built facility. The ownership of newly built facility will be owned by the private partners and not only ownership status built also operated by them during the agreed contracted period. This leads to the transformation of BOT into BOOT. The risk associated with the BOOT related to planning, design, construction and operation will be borne by the private stakeholders during the contracted period. The public sector partners will have to buy or purchase the products (goods/services) produced under BOOT arrangement on mutually agreed terms and conditions. Under the BOOT arrangement, any project built under the PPP model can be transferred back to the Government only after the complete recovery of investment with some profit margin by the private partners under acceptable terms and conditions.
- **Design, Build, Finance & Operate (DBFO):** This is another variant of PPP model under which the whole responsibility including operate for design, financing, construct or build and maintenance of the project is entrusted with private partners. Financing and operating such projects is also termed as Concessions. The entire responsibility is laid with private partners to design, operate, construct and maintain the project during the agreed contracted period. They work for recovery of their investment on some profit margins using ROI concept. It must be remembered that under such arrangements of PPP model, the entire risk involvement in designing, planning, and execution and in maintenance is borne by and transferred to the private partners. The role of the public sector partners is limited up to providing the guarantee to the financial institutions and other financing agencies on behalf of the private partners, providing help and assistance in acquiring the land and in obtaining the statutory and environmental clearances and approvals from different regulatory and approval authorities and appellate.
- **Operations Concession (OC):** It is a very common and generic term that is used to categorically clarify the essential attributes and features of the Concessions and PPP arrangement. Under PPP arrangement, the PPP agreements provide authority and power to the private partners to earn back their investment with the reasonable rate of return. But this authority is given to them only for a specified and limited period and this period is calculated on the basis of projected demand of the projects and rate of growth. This is called operation concession (OC). The responsibility of providing the services to the public under this arrangement will be of public sector partners and collecting revenues from the user by the way of charging toll, tariffs and other modes of charges. Public sector partners assign their legal and statutory attorney and rights to the private partners in pursuit of better and effective implementation of projects and further maintenance of the same. The concession may be collected by the way of collecting tolls and other user charges or by the public sector making periodical payments of annuities or monthly / quarterly/ half-yearly basis.
- **Joint Ventures (JV):** In some PPP arrangements, the joint venture system is followed by the both partners (Public and private). Under Joint Venture (JVC) arrangement the major shareholding is owned by the private partners and latter has the minority shareholding. All the responsibility of designing, constructing, managing all the operations is borne by the private partners. This kind of arrangement is commonly followed in aviation sector in order to develop the airport infrastructure. Examples are international airports (Hyderabad and Bangalore), ports etc.

Advantages of PPP Model

- It offers an easy access and availability to private sector involvement in providing finance.
- It enhances efficiency in operations from using private sector managerial and technical skills and from shifting risk to the private sector as well.
- It also increases transparency and effectiveness in its system and operations.
- Its major focus remains on the creation on an asset to delivery of services, including maintenance of the infrastructure asset.
- It reduces the overall life-cycle cost of any operation and thus, it is supposed to be an incentive.

Role of PPP Model in Various Sectors

- **Healthcare:** An agreement named 'the Concession Agreement-Guiding Principles for PPP' has been formulated by NITI Aayog in Healthcare and Medical Education. It also worked with the Department of Economic Affairs on the amendments to the scheme for Financial Support to Public-Private Partnership (PPP) in Infrastructure. It empowers and enables the PPP to acquire the grants through the PPP arrangements to bridge the funding gaps and its viability. Under such PPP Government of India can contribute up to 40% of the total estimated cost of the project if it considers the project economically viable and feasible.

For this purpose, a wide series of discussions and dialogue with the State were conducted in order to update the VGF scheme. NITI Aayog also provided handholding to the States in identification of projects, preparation of concept proposals, and vetting of proposals by DEA. It showed its effective results and subsequently, eight health sector undertakings under PPP arrangement are in the advance stage of the VGF grant.

- **PPP in Food Grain Storage:** In order to enhance the efficiency and to leverage to private sector, NITI Aayog working closely with the Department of Food and Public Distribution Program. It enhanced and leveraged the efficiency of the country's wheat storage. The outcome of such PPP is quite encouraging and motivating and around twelve states across the country envisaged the development of silos at 249 locations with total storage capacity of more than 110 LMT at an estimated cost of around more than 9,200 crores.
- **Redevelopment of Jawaharlal Nehru (JLN) Stadium on PPP Mode:** NITI Aayog also worked with Ministry of Youth Affairs and Sports in pre-transaction activities and for finalizing and formulating the strategy for the development of Jawahar Lal Neharu stadium in National Capital Delhi for having the maximum utilization of its worth for sports activities. The proposed project has to be executed through PPP model.
- **State Support Initiatives towards PPPs and Asset Monetization:** For monetizing the low profit making state assets, the National Monetization Pipeline recognized the vital role of states to accelerate the monetization efforts and raising funds for the development of project infrastructure in a sustainable manner. Investors under PPP arrangement always seek to have well-structured state level assets. Therefore, it is crucial and important to create and form state level monetization pipeline.

Major PPP Projects in India

S. No.	Project Name	Project Cost (INR) (Crores)	Status of Project
1	Hyderabad Metro Rail Project	18,000	Awarded
2	Greenfield Ganga Expressway	17,000	Awarded
3	Teesta IV Project-520 MW	5,878	Under Construction

Conclusion

This model (PPP) creates and explores new and substantial resources of financing for the public authorities. With the help of PPP model, public sector authorities can take the benefits not only of financial assistance but also they can have the benefits of experience, technical advancement, R & D and efficiency too. This model is cost-effective model as well as it also shares the risk associate with the project. The advantages and implications of PPP model can be availed in long run. India needs a huge investment to develop its infrastructure at a large extent that is why PPP model will certainly play a vital role and can contribute its robust development and growth. It will also assist in shifting the financial burden of public authorities top the private sector. With this move, private sector will also realize its responsibility and accountability in the process of growth and development of economy and nation. PPP model creates and ensures sufficient availability of funds that can be utilized in nation building and in the development of country's infrastructure to foster the sustainable growth. This model gives the liberty to the public authorities to shift their attention to other developmental projects rather than infrastructural projects. It also corrects their off balance sheet exposures. This model provides liberty to the public sector from the need to satisfy the financing needs from its own revenues in terms of taxation or by the ways of other borrowing.

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