

THE BUILDING BLOCKS OF PUBLIC PRIVATE PARTNERSHIP (PPP) PROJECTS IN INDIA- WITH REFERENCE TO TAMIL NADU

D. S. Selvakumar*

***Abstract:** Infrastructural developments and policy changes at the national level necessitated a process by which a private partner was selected. The procedure was found to be complicated because the agreement was for a long-term basis. The purpose of the relationship is the construction and management of infrastructure for public use over a specified period of time. This paper tries to point out the possible building blocks while proposing PPP with special reference to Tamilnadu.*

***Key words:** PPP, TN, public-private partnership, India, Tamilnadu*

INTRODUCTION

A Public-private partnership (PPP or 3P) is a commercial legal relationship defined by the Government of India as “a partnership between a public sector entity (the sponsoring authority) and a private sector entity where fifty-one percent or more of equity is with the private entity.”

The purpose of the relationship is the construction and management of infrastructure for public use over a specified period of time. The private entity is selected in a transparent way. Foreign Direct Investments in 3P projects receive a one hundred percent tax benefit. In the 2000s, India experienced rapid economic growth and 3P relationships became important in infrastructure, power, irrigation, telecommunications, water supply and airports.

CURRENT STATUS OF PPPS IN INDIA

The PPP India database (Department of Economic Affairs, Ministry of Finance) indicates that 758 PPP projects costing INR3,833 billion³ is awarded /underway status (i.e., in operational, constructional or in stages wherein at least construction/ implementation is imminent). There exists significant untapped potential for the use

* Professor, School of Social Science, VIT University, Vellore-632014, India, E-mail: dsselvakumar@vit.ac.in

of the PPP model in e-governance, health and education sectors. Karnataka, Andhra Pradesh and Madhya Pradesh are the leading states in terms of number and value of PPP projects. At the central level, the National Highway Authority of India (NHAI) is the leading user of the PPP model].

Uttar Pradesh has claimed the top spot with the highest share of about 15 per cent in PPP projects across the country, followed by Maharashtra and Gujarat, a recent Assocham-SREI study said.

“UP again has the highest share of about 22 per cent in terms of value in total PPP investment projects under construction across India, followed by Maharashtra (11 per cent), Haryana (8.5 per cent), Gujarat (6 per cent) and Madhya Pradesh (4.5 per cent),” said the study titled PPP Investment in Indian Infrastructure: Need for growth and development.

The Associated Chambers of Commerce and Industry of India (Assocham), along with infrastructure conglomerate SREI, has conducted this study.

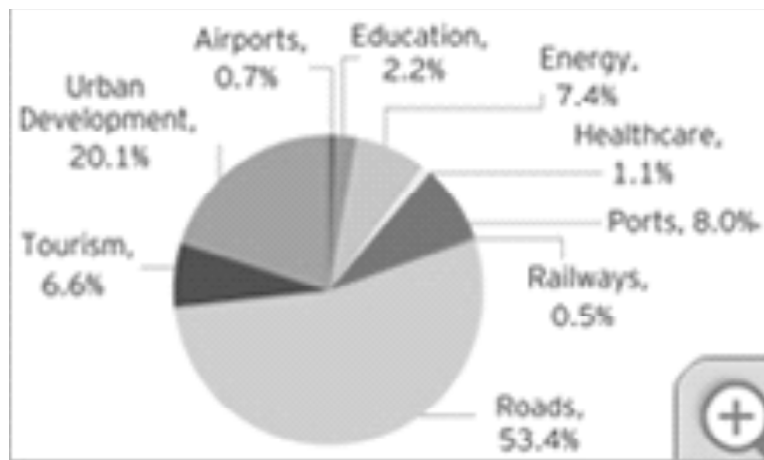
Gujarat has the highest share of 15.5 per cent in infrastructure projects (value terms) that are under operation on the public-private partnership (PPP) model and is followed by UP and Maharashtra (13 per cent share each), Tamil Nadu and Karnataka (almost 8 per cent each).

“A total of about 1,200 projects in different segments of the infrastructure sector with investments worth about Rs 7 lakh crore are being carried out in the PPP mode throughout India,” said secretary-general of Assocham D.S. Rawat while releasing the findings. Interestingly, most PPP investment projects have been terminated in Maharashtra (13 per cent) followed by Chhattisgarh (10 per cent), Gujarat (9 per cent), Kerala (7 per cent) and MP (7 per cent).

“Poor preparations, flawed risk-sharing, inappropriate business models, fiscal uncertainties and vested interests leading to development of skewed qualification criteria are certain key reasons for failure of PPP projects in India,” said Mr Rawat.

The study has suggested the government to set up of an independent institution for overall co-ordination and management of PPP projects in the country. “It should also act as nodal agency with the responsibility of creation of PPP data base, creation and regular updation of model bid documents for all infrastructure sectors, co-ordination with government departments concerned and dissemination of best practices and learning through both successes and failures,” the study said.

India requires huge investment to upgrade its infrastructure and the government expects most of it to come in form of PPP projects.



-PPP projects in India by sector
(Total number of projects: 758)*

-PPP projects by value of contracts
(Total number of contracts: INR3,833 billion)*

PUBLIC PRIVATE PARTNERSHIP (PPP) Cell

FUNCTIONS

1. Matters relating to examination and approval of Central sector PPP projects, in all sectors costing more than Rs. 100 crores or more and less than Rs. 250 crores and under NHDP costing Rs. 250 crore or more and less than Rs.500 crore.
2. Matters and proposals relating to clearance by Public Private Partnership Appraisal Committee (PPPAC).
3. Matters and proposals relating to the scheme for Financial support to Public Private Partnerships in Infrastructure Viability Gap Funding (VGF) Scheme.
4. Matters and proposals relating to the scheme for India Infrastructure Project Development Fund.
5. Developing Multi-pronged and innovative interventions and support mechanisms for facilitating PPPs in the country, including Technical Assistance programmes from bilateral and multilateral agencies on mainstreaming PPPs and support to State and local governments.
6. Managing training programs, strategies, exposures for capacity building for PPPs and other matters relating to institution building for mainstreaming PPPs.
7. All International interfaces on PPPs & other matters concerning PPPs.
8. Matters relating to management of PPP related information,

New rules framed for PPP projects in TN

The State government has framed and notified rules for Public Private Partnership (PPP) projects of more than Rs. 25 lakh value to ensure clarity and transparency at every stage.

The rules, notified and effective from November 26, are aimed at eliminating delay in entering into a partnership, avoiding troubleshooting and audit objections at later stage, say official sources. Prior to the Tamil Nadu Transparency in Tenders Act, 1998, the government used to enter into an agreement with a private firm for a PPP project such as New Tirupur Area Development project, after negotiations.

Infrastructural developments and policy changes at the national level necessitated a process by which a private partner was selected. The procedure was found to be complicated because the agreement was for a long-term basis. The government had two options: one to add a few rules here and there keeping the substance of the original Act intact and the other was to define procedures in detail as there were variables to be factored in.

Importantly, the draft concession agreement reached between the government and the private partner has to be agreed upon upfront after the framing of the new rules. "We have had cases in which the selected partner had drafted the concession agreement after the company was awarded the tender. This is changing the rules of the game and designing the agreement to suit the needs of the private partner," said a senior official.

The new rules would ensure that the private partner would not deviate from the concession agreement at a later stage and there were clear guidelines for every department on how to go about it as the methodology had been laid down now, he explained. There could be four stages like Request for Expression of Interest (REOI), Request for Qualification (RFQ), Request for Technical Proposal (RTP) and finally Request for Proposal (RFP).

For projects worth over Rs. 10 crore, two-stage open competitive tendering had been laid out, the official said. As the private players also needed time to prepare for bidding, the government had granted eight weeks for each stage. The preparation stage could take some time, but after awarding the tender, the departments need not regularise processes later. The rules were intended for greater transparency, quicker processing and clarity in governance.

Building Blocks

1. Regulatory environment: There is no independent PPP regulator in India currently. In order to attract more domestic and international private funding of infrastructure, a more robust regulatory environment, with an independent regulator, is essential.

Projects in Pipeline(TN-PPP)

<i>Sl.No.</i>	<i>Project Name</i>
1.	Waste Energy implementation - Energy Project in PPP in Tirunelveli City
2.	Development of Tamil Nadu Maritime College at Thoothukudi - Tamil Nadu Maritime Board
3.	TNSTC(Villupuram) Ltd - Consultancy Assignment for Transaction Advisory to develop a model through BOT for the vacant lands at Vikravandi and Ulundurpet
4.	Establishment of Mid Sea Fish Processing unit cum Carrier mother Vessel on Public Private Partnership mode - Pre-Feasibility Report
5.	Chennai Corporation- Construction of 5000 modern Shell units under BOT basis
6.	Construction of Fishing Harbour at Manakudy in Kanniyakumari Dist. Under PPP Mode
7.	Setting up of World Class Oceanarium at Mamallapuram under PPP mode
8.	Thoothukudi UGSS/UNPR implementation of STP - Execution
9.	Chennai Corporation - Bus Route Roads Department - Construction of Multi-Level Car Parking at Bashyam Road
10.	Consultancy assignment for organisation of existing Bus Shelters and Construction of New Bus shelters in Town Panchayats in Tiruvallur District.
11.	TAMIN - Manufacturing of Industrial sand from quarry waste
12.	TNSTC(Villupuram) Ltd - Consultancy Assignment for Transaction Advisory to develop a model through BOT for the vacant lands at Vikravandi and Ulundurpet
13.	Setting up of a School with Hostel facility for the Children of the workers registered with unorganised workers Welfare Board in PPP mode
14.	Establishment of Fish Processing Park at Eravanur in Tiruvallur District
15.	Tamil Nadu Slum Clearance Board - Multi Storey Office Complex at Nandanam under PPP mode

2. Lack of information: The PPP program lacks a comprehensive database regarding the projects/studies to be awarded under PPP. An online data base, consisting of all the project documents including feasibility reports, concession agreements and status of various clearances and land acquisitions will be helpful to all bidders.
3. Project development: The project development activities such as, detailed feasibility study, land acquisition, environmental/forest clearances etc., are not given adequate importance by the sanctioning authorities. The absence of adequate project development by authorities leads to reduced interest by the private sector, mispricing and many times delays at the time of execution.
4. Lack of institutional capacity: The limited institutional capacity to undertake large and complex projects at various Central ministries and especially at state and local bodies level, hinder the translation of targets into projects.

5. **Financing availability:**The private sector is dependent upon commercial banks to raise debt for the PPP projects. With commercial banks reaching the sectoral exposure limits, and large Indian Infrastructure companies being highly leveraged, funding the PPP projects is getting difficult
6. **Political stability:**In TN every Five years once different political parties used to form Government which leads to ideology difference directly affects the project implementation.
7. **No co-ordination between union Government& States:**Quite often there is lack of coordination between Union Government and the State because of nature of alliance between the political parties affects the projects.
8. **Ego problem:** There exists ego problem between the union government and the state and big brother attitude by the union government. Usually State government expects the amount which is required for the proposal to be sanctioned which is not possible by the union government.
9. **Nexus between Contractors & Politicians:** The direct and indirect relationship which prevails between the contractors and politicians leads to the poor quality and delay in implementing the projects is also a drawback.
10. **Multi –window sanctioning:** Instead of single window licensing system in the state government and also in union government there are multiple windows to sanction a project.
11. **Time line:**Non-profits are working on a long-term timeline. Many of their goals can only be achieved with long-term commitment; this is where their focus will lie. For-profit organizations are more short-term oriented because of short-term goals focusing primarily on profitability. Finally, government agencies' timeline depends a lot on election timelines and therefore can change regularly.
12. **Independent Institution for Overall Management:** It is a must that the union government has to setup an independent institution for overall coordination and management of PPP projects in the state.

SUGGESTIONS

1. Creating an ongoing narrative about partnerships and how will these be developed, maintained, terminated. This is especially prevalent to the local and state governments who rely heavily on the non-profits for the public services. A business partnership model would not be accurate or appropriate for a P3. Many partnerships can be terminated early due to issues with trust and cooperation during the contract implementation process. These issues can be avoided when the organization has initial guidelines for dos and don'ts.
2. Creating a formal control mechanism for the partnership.

- (a) Insure that there is a continuous commitment with negotiations in any time of trouble and even an outline for termination procedures if necessary.
- (b) conflict resolution, outreach and organizational development are items that managers can work on and even assign specialists to each task. Creating a timeline to be followed throughout the partnership assists in mutual understanding and communication as well. Assigning specialists to work with skills in communication, conflict resolution, negotiation and policy analysis cross-sector partnerships have also been able to flourish.

References

- Department of Economic Affairs, Ministry of Finance, Government of India, 2007.
- Raju S. *A successful Indian model* The Hindu, Survey of Indian Industry 2011.
- Delmon, J. "Public Private Partnership Programs: Creating a framework for private sector investment in infrastructure, Kluwer, 2014.
- Hart, Oliver (2003). "Incomplete contracts and public ownership: Remarks, and an application to public private partnerships". *Economic Journal* 113: C69-C76.
- "Local government services and contracts: Best practices and key issues to watch". Journalists Resource.org, retrieved February 14, 2014.
- World Bank (2007) "Public-Private Partnership Units: Lessons for their designs and use in infrastructure.

