



Private sector participation in infrastructural development in India

Swagat Rout

Asst. Prof (Visiting Faculty), Dept. of Economics, Rajdhani College, University of Delhi, India

Abstract

Availability of better infrastructure is a key driver for faster growth. With rapid population growth and increasing urbanization the demands for better infrastructure are growing at a higher rate. But it is the increasing fiscal constraint due to declining tax to GDP ratio, widening debt to GDP ratio and other planning and management inefficiencies, Indian Government is finding it difficult to fund the long gestation period big infrastructural and other important projects. The need for huge amount of fund for investment and ineffective public regulation has led to the provision of private sector's participation in development and management of infrastructure and the provision of public services in India. As a result of that we are witnessing a major change in Government's policies and actions where big private companies are encouraged to be partner with the government in completing the projects. This type of arrangement between Public and Private Players is coined as PPP (Public Private Partnership), where Private parties bears the maximum risks including financing and management parts of the project. There are other types of options as well such as Design-Build-Finance-Operate-Transfer (DBFOT), Build-Own-Operate-Transfer (BOOT). A number of MoU's (Memorandum of Understandings) are being signed between Centre, different States and Private companies in expediting the completion of the big projects by keeping all sorts of legal and managerial options in proper order. But many PPP projects are stalled which questions very much the viability of this kind arrangement in giving a pace to the other PPP agreement which is expected to be signed in future. Many complex issues and risks are cropping up into these type arrangement including legal, managerial and financial.

Keywords: Public Private Partnership (PPP), Design-Build-Finance-Operate-Transfer (DBFOT), Build-Own-Operate-Transfer (BOOT), Memorandum of Understanding (MoU)

Introduction

From the 2nd five year plan of setting up heavy industries with dominating Public sectors to the 8th five year plan of New Economic Policy of liberalization and privatization, Indian economy has gone through many ups and downs in its growth due to changes in plans and policies. Burgeoning expenditure with increasing liabilities and obligations has always put the government in deficit side of revenue. Government is looking up into different options to share its burden of obligations so that on priority basis the areas which matters most for growth can be given utmost importance. So, by taking up the urgency of big infrastructural projects which acts as a wheel in accelerating growth of the Indian economy, government is tying up with the private players to bridge the infra deficit gap. This PPP arrangement which refers to a long-term contract between a private party and a government agency, for providing a public asset or service, in which the private party bears significant risk and management responsibility. But viability of this arrangement depends upon the credibility of commitment, understanding and cooperation with each other in all matters with true spirit of in time completion of agreed projects. Practice of good governance by both public and private agencies plays a very crucial role. An approach of accountability and transparency will ensure the projects to speed up in right direction towards efficient and productive results.

Need for Private sector participation-

A major determinant for increased private sector participation in infrastructural development for provisioning of public services is due to poor performance and mismanagement. The unsatisfactory situation is reflected by the combination of technical, financial, institutional, and environmental problems of public service monopolies which have resulted in bad service, poor cost recovery and financially insolvent systems. Infrastructure investments tend to be capital intensive with long gestation and even longer payback periods.

The promise of the private sector lies in improved management with higher efficiency and increased access to private capital for maintenance and expansion. While the potential benefits are clear, the obstacles to private sector participation are often formidable.

Roadmap for private sector participation-

Any type of arrangement between two parties to work together requires proper autonomy and flexibility of certain degree so, that neither party will enjoy any kind of dominance over other. This PPP, BOOT, DBFOT arrangement must be in a framework of confidence and trust where the objective to complete the projects should not be guided by any kind of vested interest. Each parties must aim for maximizing the common agreed goal in which their prospective returns from the project will cover up the cost of individual party involved.

For a fast-growing economy like India, the creation of world class infrastructure requires large investments in

addressing the deficit in quality and quantity. Therefore, it is necessary to explore all the possibilities to bridge up this gap through private sector participation under Public Private Partnerships (PPPs) in all areas of infrastructure like express highways, ports, energy, etc.

Policy challenges for private sector participation

These issues largely affects private sector participation-

- Political commitment at the highest level and consensus of the main stakeholders are key to successful private sector participation (PSP).
- Policy decision of the government to promote the private sector participation and investment climate in the country must be conducive.
- Easy doing business policy with due attention to address any sort of complexities, hurdles and legal issues emerging from projects.
- Land acquisition, environmental clearance and any emerging issues related to projects must be resolved expeditiously.
- Mobilization and generation of funds through Special Purpose Vehicle (SPV), loan from banks and issue of shares to capital market must be opted for avoidance of any financial shortage.
- Procurement of private sector participation must be through a well-prepared, transparent, and universal bidding and award process.

A WAY forward

In order to attract private sector participation a multitude of reforms such as economic, financial, legal, and institutional is necessary. Though private sector participation has gained significant importance in the country, there is a need to explore it further to make it a successful and sustainable policy option. A whole some approach needs to be adopted to satisfy the conflicting interests of multiple stakeholders such as government, private players, users, financial institutions, etc.

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