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ROLE OF PUBLIC PRIVATE PARTNERSHIP IN URBAN INFRASTRUCTURE: A CASE STUDY ON WEST BENGAL STATE IN INDIA

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ABSTRACT

Since last decade, rapid urbanisation has augmented the need for urban infrastructure in India. Due to paucity of public funds, Urban Local Bodies (ULBs) have to look for alternative sources for financing their infrastructure needs. Accessing capital markets and Public Private Partnership (PPP) have emerged as viable options to finance urban infrastructure. PPP is a sustained and long-term partnering relationship between the government and private sector for the purpose of providing or provisioning of public services or infrastructure. A number of PPP options have emerged in India and these includes- performance-based service contract, joint sector company to implement and finance the project, a management contract for operations and maintenance and construction cum build-operate-transfer contract. As on 31st July, 2011 a total of 758 projects awarded by the Government of India under PPP programme; value of contract being INR 383332 crores. Roads were the leading sector both in number and contract value. In West Bengal state 30 projects were in operation under PPP model and a majority of them targeted for urban development. In this paper the initiative of West Bengal state government in implementation of projects under PPP model for urban development is evaluated on the basis of secondary data.

KEYWORDS

Infrastructure, partnering relationship, Urban Local Bodies, private, public.

INTRODUCTION

In India, the level of urbanisation is growing at a rapid pace. Census data 2011 reveals that about 377 million (31 per cent of Indian population) live in urban areas; and this number will be jumped to 590 million at the end of 2030. In the coming years, the concentration of India's urbanization will be huge. As against one state currently (Tamil Nadu), about 5 states are going to be more than 50 per cent urbanized by 2030 as per McKinsey estimates (2010). The process of urbanization in India is mostly characterized by dramatic increase in the number of large cities. In 1951, there were only five metropolitan cities (with population of over 1 million), i.e., Kolkata, Mumbai, Chennai, Hyderabad, and Delhi. Their number increased to 12 in 1981, 35 in 2001 and 53 in 2011 and is further expected to be about 68 in 2030. Urbanization in India has become an irretrievable process, and an important determinant of national economic growth and poverty reduction. Urbanisation and growth are in fact two-way linked. While urbanisation is an inevitable outcome of the faster rates of growth, it is also a process that leads to growth. It is quite evident from the urbanization pattern in India that the rate of development is clearly related to the rate of urbanization. Generally, states with higher gross state domestic product (GSDP) have higher levels of urban population. Advanced states in India, such as, Gujarat, Maharashtra, Tamil Nadu and Karnataka are significantly more urbanized than Bihar, Odisha and Assam. In the coming decades, the urban sector will play a vital role in the structural transformation of the Indian economy and in maintaining the high rates of economic growth.

A growing urban population has been creating additional demands on infrastructure and services, requiring both short-term funds for their upholding as well as long-term funds for producing additional facilities. But the size of the fiscal sector of Urban Local Bodies (ULBs) in India is very small, especially in relation to the public services and also in comparison to many developing nations. The total municipal revenue in India accounts for about 0.75 per cent of the country's GDP as against a figure of 4.5 per cent for Poland, 5 per cent for Brazil and 6 per cent for South Africa. In terms of both revenue and expenditure, the ULBs account for only about two to three per cent of the combined revenue and expenditure of Central Government, State Governments and ULBs. The fiscal reforms initiated at the center since 1990's had put considerable pressures on the state finances, by reducing grants, subsidies, loans, and other forms of transfers from the central government; again the reform in the financial sector has been slowly reducing the "directed credit" component of the financial institutions. However, the reform had their own way for the private sector participation in the provision of urban infrastructure and civic services, thereby to an extent also enlarged the capabilities and resource base of the local governments. In this context, sub-national governments has been required to seek new sources of funding, including exploring the participation of private sector in service delivery.

The 74th Constitutional Amendment bestowed ULBs the responsibility to provide the urban infrastructure services like urban water supply, sewerage and sanitation, drainage and solid waste management. Traditionally, urban infrastructure has been financed mainly through budgetary allocations. Other financing options come from financial institutions like Housing and Urban Development Corporation and limited investments by the ULBs themselves through their internal resources. Funding from all these sources, however, fall far short of the urban sector's estimated investment requirements. Since public funds for these services are inadequate, ULBs have to look for alternative sources for financing their infrastructure costs. Market-based financing and Public-Private Partnership (PPP) have emerged as a viable alternative to finance urban infrastructure requirement.

PUBLIC – PRIVATE PARTNERSHIP (PPP): CONCEPTUAL ISSUES

A PPP is a government service or private business venture which is funded and operated through a partnership of government and one or more private sector companies. These schemes are often referred to as Private Sector Participation (PSP), P3 or P3 (Asian Development Bank: 2006). It is a sustained and long-term partnering relationship between the government and private sector for the purpose of providing or provisioning of public services or infrastructure. With a common vision in place, the public and private sector bring to the table their own experiences and strengths resulting in accomplishment of common objectives. PPP is born based on the fact that government provision of goods and services should not only lay emphasis on finance but on the quality of goods and services. However, government contributions to a PPP may also be in kind (notably the transfer of existing assets). In projects that are aimed at creating public goods like in the infrastructure sector, the government may offer a capital subsidy in the form of a one-time grant, so as to make it more attractive to the private investors. In some other cases, the government may support the project by providing revenue subsidies, including tax breaks or by removing guaranteed annual revenues for a fixed time period. Through PPP, the public sector seeks to bring together the resources of the public sector and the technical expertise of the private sectors to provide services and goods to the public at the best value for money (Ministry of Finance, Singapore, 2009). With PPP as an alternative form of financing infrastructure project, the public sector will focus on the provision of infrastructure developments at the most cost-effective basis, rather than directly owning and operating infrastructures.

Typically, a private sector group forms a special company called a "special purpose vehicle" (SPV) to develop, build, maintain and operate the asset for the contracted period. In cases where the government has invested in the project, it is typically (but not always) allotted an equity share in the SPV. The group is usually made up of a building contractor, a maintenance company and bank lender(s). It is the SPV that signs the contract with the government and with subcontractors to build the facility and then maintain it. In the infrastructure sector, complex arrangements and contracts that guarantee and secure the cash flows make PPP projects prime candidates for project financing. A typical PPP example would be a hospital building financed and constructed by a private

developer and then leased to the hospital authority. The private developer then acts as landlord, providing housekeeping and other non-medical services while the hospital itself provides medical services.

There are usually two fundamental drivers for PPPs. Firstly, PPPs are claimed to enable the public sector to harness the expertise and efficiencies that the private sector can bring to the release of certain facilities and services traditionally procured and delivered by the public sector. Secondly, a PPP is structured so that the public sector body seeking to make a capital investment does not invite any borrowing. Rather, the PPP borrowing is incurred by the private sector vehicle implementing the project and therefore, from the public sector's perspective, a PPP is an "off-balance sheet" method of financing the delivery of new or refurbished public sector assets.

COMMON TYPES OF PPP MODEL FOLLOWED IN INDIA

While the preferred form of PPP model is the one in which the ownership of underlying assets kept by the public entity during the contract period and the projects get transferred back to the public entity at the end of the contract period, the final decision on the form of PPP is determined by using the value for Money Analysis. Following are the PPP model supported by the GOI -

- (i) **Modified Design Build (turnkey) contracts:** The design build contract provide benefits in the form of time and cost savings, efficient risk sharing and improved quality. The turnkey approach with milestone-linked payments and penalties of incentives can be linked to such kind of contracts.
- (ii) **BOT (build-operate-transfer) models:** The BOT form of model and it variants is the most common of PPP model used in India accounting for almost 2/3 rd of PPP projects in the country. The two major forms of PPP model are –
 - (a) User-free based BOT model – commonly used in medium to large scale PPPs for the energy and transport sub-sector, and
 - (b) Annuity-based BOT model – commonly used in sector or projects not meant for cost recovery through user charges e.g. rural, urban, health and education sectors.
- (iii) **Performance based management / maintenance contracts:** The PPP model that lead to improved efficiency and encouraged in an environment that is constrained by the availability of economic resources. The sectors meant for such form of PPP model includes water supply, sanitation, solid waste management, road maintenance etc.

HISTORY OF PPP

The history researchers show that as early as 1438, the French nobleman Luis de Bernam was granted a river concession to charge the fees for goods transported on the Rhine. Another well-known literature example of the concession of this type was the one that had been granted in 1792 in France to the brothers Perrier for water distribution in Paris (Wikipedia) Soon the French legal practice structured the so-called public works concession. The broad participation of private capital in public investments has found widespread use in the period since the turn of the seventeenth and eighteenth centuries to the end of the nineteenth century, when construction of infrastructure facilities (water channels, roads, railways) in Europe and later in America, China and Japan was funded by private sources under concession contracts. After the period of expanded government intervention in the infrastructure sector during the period from the late nineteenth century to the 1970s of the twentieth century the transformation of the infrastructure into market oriented economy became very popular in the 1980's and 1990's. In 1992 the UK started to implement Private Finance Initiative (PFI) a comprehensive program of the government, which was to cover the state-owned enterprises. Under PFI, the public sector became a purchaser of services provided by an entrepreneur, while the latter provided the necessary fixed assets for their implementation. Under this scheme the chore in the areas such as roads, subways, prisons, national defence, health care, housing for the administration and computerization are successfully implemented. In France, a popular model for establishing cooperation between public entities and private partners has, in the 1990's, become the *delegation de service public* institution. In Canada the federal conservative government under Stephen Harper solidified its commitment to P3s with the formation of a crown corporation, P3 Canada Inc, in 2009. The Canadian vanguards for P3s have been provincial organizations, supported by the Canadian Council for Public-Private Partnerships established in 1993 (a member-sponsored organization with representatives from both the public and the private sectors). From 1990 to 2009 nearly 1,400 PPP deals were signed in the European Union, representing a capital value of approximately €260 billion. However, since the onset of the financial crisis in 2008, estimates point out that the number of PPP deals closed has fallen more than 40 percent in the world.

EVOLUTION AND CURRENT STATUS OF PPP IN INDIA

For a fast-growing economy like India, a sustained growth rate of about 8–9 percent is feasible and necessary to maintain global competitiveness. The Approach paper for the Twelfth Five Year Plan (FYP) (2007-2012) set a target for infrastructure spending requirement of INR 40,992 billion (up from infrastructure spending level of INR 9,061 billion and INR 20,542 billion during the Tenth and Eleventh FYPs respectively) in order to attain a share of 10 % of the country's GDP. Around 50 % of such investment is estimated to come from the private sector against the average of 35.8 % contribution that was estimated in the Eleventh FYP. Therefore, the creation of world class infrastructure would require huge investments in addressing the deficit in quality and quantity, and it is necessary to explore the scope for plugging this deficit through implementation Public Private Partnerships (PPPs) in all areas of infrastructure projects like roads, ports, energy, etc.

The history of genesis and development of PPP projects in India can be divided into three phases –

Phase I (19th century and early 20th century): Few notable PPPs were found in the 19th century e.g. The Great Indian Peninsular railway Company (1853), The Bombay Tramway Company. In the early 20th Century PPP models were found in power generation and distribution sector at Mumbai and Kolkata.

Phase II (1991 – 2006): In post liberalised era, Government of India envisages that a significant role can be played by the PPP model in improving level and quality of economic and social infrastructure services. 86 PPP projects worth INR 340 billion were awarded till 2006 and most of the projects were in bridges and road sector.

Phase III (2006 onwards): Indian economy witnessing increasing acceptance of PPP model in urban infrastructure due to favourable policy reforms and innovative PPP structures. Number of PPP projects improved from 15 in 2006 to 758 in 2011 and value of contracts jumped by 46.29 times to INR 383332 crores during the same period (table 1). These projects spread over various sectors like health, education, energy, roadways, Railways, Airports, ports, tourism and urban development. Roads are the leading sector in terms of number and value of contract (405 and INR 176743 crores respectively) [table 2 and table 3]; and National Highway Authority of India (NHAI) is the leading user of PPP model. The other significant sector includes port (60 and INR 81038 crores), energy (56 and INR 67245 crores) and airport (5 and INR 19116 crores). Still there exist significant untapped potential for the use of the PPP model in e-governance, health and education sector. However, there is regional disparity in the initiatives on PPP projects. It was observed that across states and union territories, the leading users of Public Private Partnership Projects have been Karnataka (104), Andhra Pradesh (96), Madhya Pradesh (86), Maharashtra (78), Gujarat (63) and Rajasthan (59). In states like Chandigarh (2), Uttarakhand (2), Assam (4), Bihar (7), Uttar Pradesh (14) the initiative for PPP projects is minimum (table 4). So far value of PPP contract is concerned, top five states account for 58.3 % of total and bottom 10 states represent 3.5 %, thus indicating differences in attractiveness of investment by private sector.

PPP PROGRAMME IN WEST BENGAL STATE

The Government of West Bengal is now taking up several infrastructure projects including physical and social infrastructure with the objective of providing better and efficient public services. In addition to traditional public sources of funding for infrastructure projects, alternative sources of financing have gained importance in the recent times. Keeping in mind, the state government has introduced a state policy on PPP for implementation of various projects in the state.

OBJECTIVES OF THE PPP POLICY OF THE STATE

The broad objectives of the PPP Policy of the West Bengal state government are outlined below:

- To fix the principles for following projects on PPP basis;
- To support private sector investments and create a favourable environment so as to enable the state to utilize private sector efficiencies, innovativeness, capacity, flexibility and resources with the objective of developing both physical and social infrastructure at minimum cost;
- To provide a steady and transparent framework for identifying, structuring, awarding and managing projects under PPP model;
- To facilitate identification and creation of appropriate projects and assisting the concerned departments in effective project structuring, implementation and monitoring of the same ;
- To create an efficient institutional framework for speedy clearances of PPP projects;
- To create a regulatory framework for PPP Projects;

INFRASTRUCTURE SECTORS TO BE COVERED

The spectrum of PPP of the state will cover the followings -

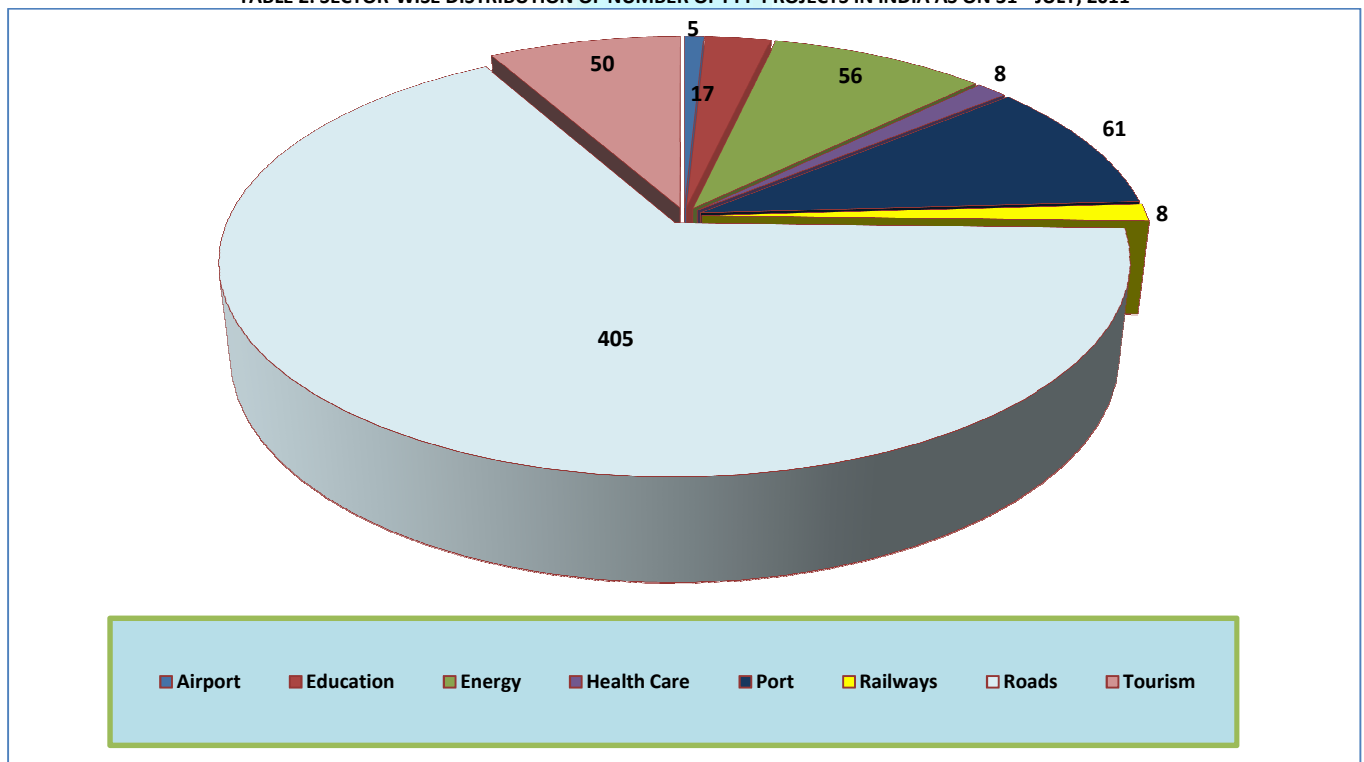
- Health (specific areas) * Education (specific areas) * Tourism related projects * Roads, bridges and bypasses * Airports, Airstrips and Heliports * Inland container depots and logistics hubs * Industrial parks, Theme Parks, Knowledge Parks, Special Economic Zones and Townships, Industrial Training Centres * Water Supply, Treatment and Distribution * Power generation, transmission and distribution systems * Solid waste management * Drainage and Sewerage * Inland water

TABLE 1: TRENDS OF PPP PROJECTS IN INDIA

Year	No of projects	Value of Contracts (INR crores)	Cost per contract (INR Crores)
2006	15	8280	460
2007	221	129575	586
2008	300	135876	453
2009	450	224176	498
2010	518	273847	529
2011	758	383332	506

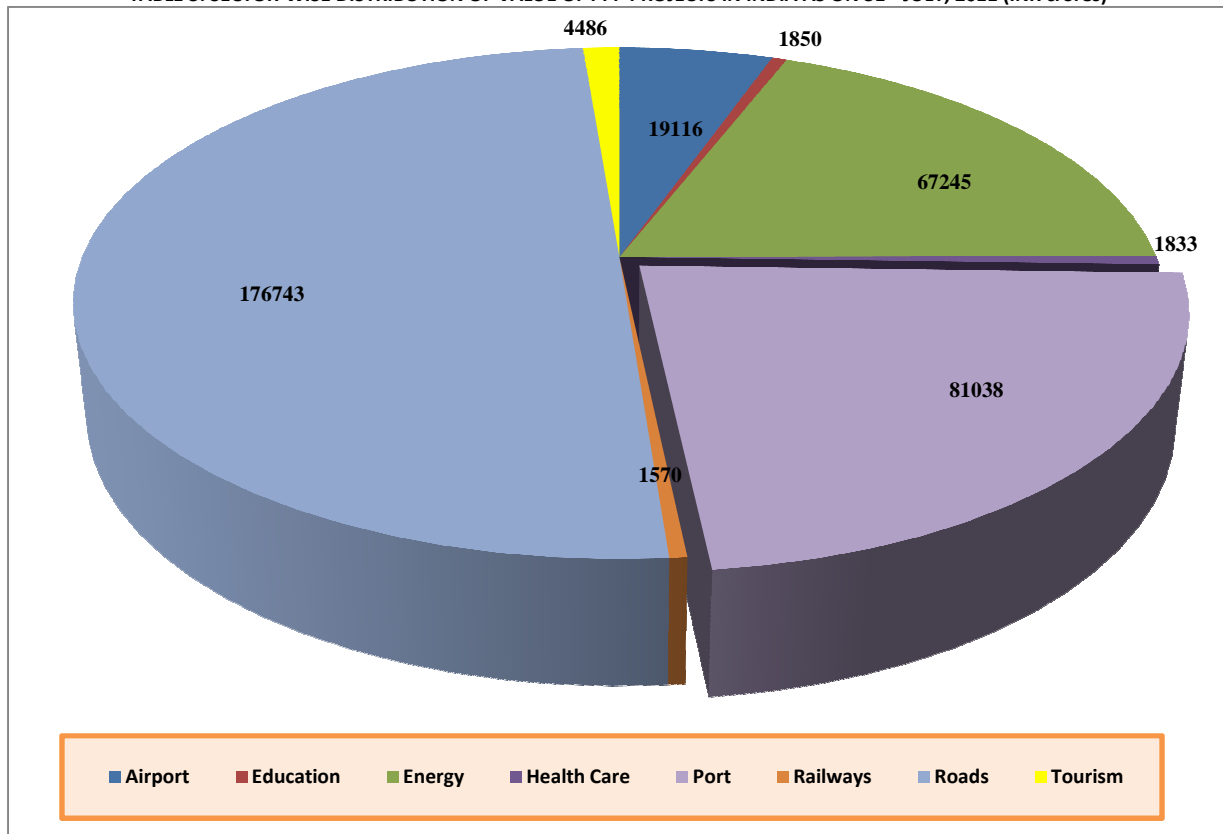
Source: Public Private Partnership India Database, Department of Economic Affairs, Ministry of Finance, GOI

TABLE 2: SECTOR-WISE DISTRIBUTION OF NUMBER OF PPP PROJECTS IN INDIA AS ON 31ST JULY, 2011



Source: Public Private Partnership India Database, Department of Economic Affairs, Ministry of Finance, GOI

TABLE 3: SECTOR-WISE DISTRIBUTION OF VALUE OF PPP PROJECTS IN INDIA AS ON 31ST JULY, 2011 (INR crores)



Source: Public Private Partnership India Database, Department of Economic Affairs, Ministry of Finance, GOI

TABLE 4: STATE –WISE DISTRIBUTION OF NUMBER OF PPP PROJECTS IN INDIA AS ON 31ST JULY, 2011

States	Number of Projects			
	Below 25	26 to 50	51 to 75	76 and above
Chandigarh, Goa, Puducherry, Uttarakhand, Meghalaya (2), Jammu and Kashmir (3), Assam, Chhattisgarh (4), Bihar (7), Haryana (10), Delhi (13) Uttar Pradesh (14)	Orissa (27), Punjab (29), West Bengal (30), Kerala (32), Tamilnadu (43)	Rajasthan (59), Gujarat (63)	Maharashtra (78), Madhya Pradesh (86), Andhra Pradesh (96), Karnataka (104)	

Source: Public Private Partnership India Database, Department of Economic Affairs, Ministry of Finance, GOI

transport * Urban transportation systems * Housing and related facilities * Any other sector / facility as may be included by the state government from time to time.

PPP PROCESS IN THE STATE

The state government departments / bodies shall identify, conceptualize the projects to be developed under PPP model and place before Empowered Committee of Secretaries (ECOS) through PPP Cell. The ECOS shall prioritise projects based on demand and supply gaps, inter-linkages and any other relevant parameters and create a project shelf. In order to assess the same, pre-feasibility report shall be prepared by the respective department. The Pre-feasibility report, would establish, inter alia, the need for the project, project cost, estimation and indicative financial viability of the proposed project including preliminary engineering studies, if any. Approval of the project would then be obtained from ECOS.

INSTITUTIONAL FRAMEWORK FOR IMPLEMENTATION OF PPP PROGRAMME

A strong, well defined and robust institutional structure is critical for implementation of a sustainable PPP programme. Again, a framework is needed to ensure that the projects are commercially viable and the contingent liabilities of the government should kept minimum within accepted norms. Keeping in mind, the state government frame a Standing Committee of the Cabinet on Industry, Infrastructure and Employment and Empowered Committee of Secretaries (ECOS) to look after the implementation of various PPP programme.

The Standing Committee of the Government is constituted vide Notification No. 1 Cab.Sub.Com dated June 29, 2011 of Government of West Bengal to consider for approval of all large value Projects under PPP which are above INR 50 crores on the recommendation of the ECOS.

ECOS is constituted under the chairmanship of the Chief Secretary, Government of West Bengal for facilitation of infrastructure project under PPP. ECOS will take up for approval all the PPP Projects with project cost up to INR 50 crores. It will also consider the PPP projects above INR 50 crores and recommend for approved to the Standing Committee.

Again, With a view to providing necessary route and hand-holding support to the departments sponsoring PPP projects, a PPP cell is created in the Finance Department. The PPP cell would co-ordinate the efforts of the different administrative departments of the state government with a view to develop infrastructure sectors involving private sector participation. The Finance Secretary is acting as the Nodal Officer of the PPP cell and assisted by the Special Secretary besides a PPP expert(s), MIS expert, financial expert, public finance expert, legal and regulatory and other supporting staff.

In order to ensure quality project preparation, a West Bengal Infrastructure Development Fund (WBIDF) will be set up under the Finance Department for assisting all the commissioned projects. The fund will finance all project preparation activities such as conducting feasibility studies, social and environment impact studies, project structuring, preparation of project documents, etc. It will also assist in capacity building and training. In some selected cases, the fund may give financial support directly to projects to enhance project viability and enable projects to be agreeable with the PPP model. The ECOS will administer the fund and prescribe detailed guidelines for operation of the fund.

CURRENT STATUS

As on 31st July, 2011 a total of 30 projects were awarded under PPP model to the West Bengal state government having an estimated cost of INR 5070 crores. Out of the 30 projects 6 projects are under operation and in rest of them project work has been already started. These projects were spread over between urban development (28) and information technology (2) sector. The details are given below (table 5):

TABLE 5: SECTOR –WISE DISTRIBUTION OF PPP PROJECT IN WEST BENGAL AS ON 31ST JULY, 2011

Sector	Type of Project	Status	Cost (INR Cr.)	Type	Implementing Agency
Information Technology	Information Technology Park, Siliguri	Bidding	400		Siliguri Jalpaiguri Development Authority
Information Technology	IT Logistics centre at Sector V, Salt Lake	Construction	300	JVCo	Kolkata Metropolitan Development Authority
Urban Development	Residential Complex and office cum commercial complex at 2 nearby sites in East Kolkata	Bidding	Yet to be assessed	JVCo	Kolkata Metropolitan Development Authority
Urban Development	Food Court at DN -6 at Sector V, Salt lake	Bidding	Yet to be assessed	BOO	Kolkata Metropolitan Development Authority
Urban Development	Development of Parking Plaza at City Centre Commercial Area	Construction	5	N.A.	N.A.
Urban Development	Commercial Complex-cum-Parking Lot Near Hasmi Chowk, Siliguri	Construction	8	N.A.	N.A.
Urban Development	Solid Waste Management Project	Construction	26	N.A.	N.A.
Urban Development	O&M and Management of 25 MGD Water Treatment Plant	Construction	45	N.A.	N.A.
Urban Development	Sealdah Commercial Complex	Construction	50	N.A.	N.A.
Urban Development	Bus-cum-Truck Terminal at Alisha P.S.& Distt. Burdwan	Construction	65	N.A.	N.A.
Urban Development	Water Supply and Sewerage System at Salt Lake	Construction	67	N.A.	N.A.
Urban Development	Multi Storied Car Park at Salt Lake	Construction	70	N.A.	N.A.
Urban Development	Commercial-cum-Recreational Hub at Durgapur	Construction	80	N.A.	N.A.
Urban Development	Water Treatment Plant (25 MGD) and Distribution Network	Construction	93	N.A.	N.A.
Urban Development	Residential & commercial complex on KMDA land at Maniktala	Construction	175	BT - Residential & BOO comm -ercial	Kolkata Metropolitan Development Authority
Urban Development	Raniganj Square High Way Facility Hub	Construction	200	N.A.	N.A.
Urban Development	Stadium Based Commercial Complex at Rajdanga	Construction	206	N.A.	N.A.
Urban Development	Office-cum-Institutional-cum-Commercial Complex at Salt Lake	Construction	500	N.A.	N.A.
Urban Development	Health City at Burdwan	Construction	650	N.A.	Burdwan Development Authority
Urban Development	5/7 Star Hotel near crossing of EMBP & Dhapa road	Construction	700	BOO	Kolkata Metropolitan Development Authority
Urban Development	Kolkata Logistics Hub at Kona	Construction	800	BOO	Kolkata Metropolitan Development Authority
Urban Development	Setting up Tubular Poles on G.T.Road in Burdwan	Under Operations	1	N.A.	N.A.
Urban Development	Kichhukhan Tourist Centre at Alisha, P.S. and District Burdwan	Under Operations	5	N.A.	N.A.
Urban Development	Shopping Complex at G.T. Road, Asansol	Under Operations	5	N.A.	N.A.
Urban Development	Amusement Park at Dagapur	Under Operations	20	N.A.	N.A.
Urban Development	Bus-cum-Truck Terminal at Nababhat P.S. and District Burdwan	Under Operations	35	N.A.	N.A.
Urban Development	Multi Utility Infrastructure Project at Dagapur	Under Operations	50	N.A.	N.A.
Urban Development	Waste Management Facilities at Haldia	Under Operations	54	N.A.	N.A.
Urban Development	City Centre at Salt Lake	Under Operations	120	N.A.	N.A.
Urban Development	HILAND Park at Baghajatin	Under Operations	140	N.A.	N.A.

Source: Public Private Partnership India Database, Department of Economic Affairs, Ministry of Finance, GOI

CONCLUSION

The GOI recognising the importance of PPP model for urban infrastructure in the changing dynamics of Indian population have establish a framework and provide incentives to promote PPP to states and urban local government e.g. Jawaharlal Nehru National Urban Renewal Mission (JNNURM). Again in the light of growing PPP trends and policy/institution intervention GOI, following Finance Minister's budget speech (2011-12), formulate a comprehensive national PPP policy; significant growth in the number of PPPs in last 15 years has made India one of the leading PPP markets in the world. In west Bengal, out of 30 projects under PPP model, 28 projects were initiated for urban development. However, implementing projects under PPP model require considerable efforts which includes project documentation, developing institutional arrangements for project structures, securing approvals and clearances from stakeholders, financial structuring, selecting a contractor, operator or concessionaire and ensuring overall financial closure. A wide range of executors have to be involved in all these

processes and consistent coordination is necessary. In addition there is a constant need for the sponsor to pursue project related activities to mitigate and minimize risks. Both capacity and legitimacy are required to perform these roles.

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