Chapter 10

PPPs in Road Infrastructure:
The Indian Experience

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ABSTRACT

PPPs are based on the implicit premise that the market stands for better efficiencies than the government and partnership with the private sector will provide access to its more efficient technical and managerial resources in addition to its capital. They have also been claimed to cut down on time and cost over-runs. This chapter, which provides findings from PPPs in highways from India, reveals that PPPs have multiple problems in their implementation. What is significant is that the public partners are responsible for many of these problems, although the private developers have also contributed through their manipulation of contractual obligations, land grabbing, and under-reporting of traffic to make illegitimate profits. A more active role of the state in the governance of PPPs, so as to make them more effective modes of delivery of services, is suggested. The chapter also recommends introspection on the philosophy of “single-size-fits-all” solution to address the infrastructure ills within any country.

1. INTRODUCTION

Public Private Partnerships, or PPPs as they are popularly known as, seem to have found favour at the policy level. They are being increasingly viewed as an attractive alternative to the traditional modes of delivery of services. PPPs are claimed to bring the arguably superior financial, technical and managerial resources of the private sector to construction and management of public services in the infrastructure sector such as highways, airports, expressways, ports, railways, power production and distribution and social sector services such as health, education, slum development and urban municipal services. Allocation of substantial risks to the private partners during asset creation and service management, claim regarding cutting down on time and cost over-runs, and a life-cycle approach to provisioning of services of higher quality are some of the reasons cited for PPPs being preferred by many governments.

Emerging experience from different countries however reveals serious flaws in the claims of economic superiority, effectiveness and profitability of PPPs. They are being questioned on various accounts of transparency, accountability, equity, and...
excessive profiteering by the private partners, in addition to grave concerns about elite and agency capture. Some critics suggest a subtle political power shift towards the private sector based on its capital power, through the partnerships. Lately, there has been convergence in literature on the crucial role that the State partners need to play within these partnerships to make them more effective. Scholars are recommending a fundamental rethink on the role of the State agencies within PPPs as there are serious dimensions of public policy and governance which need to be reconsidered from a public interest perspective. PPPs are also being perceived as new tools of governance, where multiple agencies contribute to policy making and its implementation.

Beginning with a theoretical understanding of PPPs and critical analyses of their worldwide experience, this chapter will present the Indian experience of PPPs in highways from a public policy perspective highlighting the governance issues within the partnerships. What significantly differentiates the Indian experience is that many of the problems within the PPPs are due to the State partners. This has resulted in lack of interest within the private sector to invest in PPPs. Fairly serious issues, such as mismatch between the objectives of the two partners, excessive profiteering through land grabbing and manipulation of the contractual provisions, elite capture etc., have been credited to the private partners. As the findings are drawn from cases studying national and state highways, both operational and under construction, the chapter will offer a view of the governance issues of PPPs during both these crucial stages from a national and regional perspective within a federal framework of governance from a developing country- i.e. India. The underlying inter-linked causal factors covering the institutional, financial, politico-bureaucratic and socio-economic layers are studied. The chapter underscores the crucial role the State agencies need to play in governance of PPPs. The chapter concludes by suggesting measures to strengthen the structures and mechanisms within both the public and private partners to improve public infrastructure within the PPP framework.

2. ANALYSING THE GROWTH OF PPPs

Public Private Partnerships are defined as a long-term cooperative and contractual institutional arrangement between the government and the private sector structured towards achieving a desired public goal. Within this partnership the State and non-State actors share the associated resources, costs, risks and profits while developing and provisioning public services. More specifically for the infrastructure sector, the government and private agencies pool their differentiated and specialised resources for planning, design, construction, operation and maintenance of the infrastructure and share risks, investments, benefits and responsibilities. Among its various types, the DBFO (Design, Build, Finance, Operate) or BOT (Built Operate Transfer) model is found to be widely preferred. The concession type model is most used where public partner transfers property or facilities to the private sector (for or without payment) for whole or part of contract and services are provided by private partner for a defined time period (ranging from 10 to 99 years), after which it is transferred to the public partner with or without payment of its depreciated value (Pierson & McBride, 1996).

The growth of PPPs is credited to the implicit assumption that the market stands for better efficiencies in production and delivery of services, and partnering with the market is perceived to improve efficiency gains for the government. There are several reasons why PPPs are being favoured to the government provided services. Prominent among these is the claim that PPPs result in infusion of private capital in public infrastructure projects which helps to fill the ‘infrastructure deficit’ that several debt-ridden and cash-strapped governments find difficult to do on their own; adopting this mode would release the scarce resources for