SUMMARY SHEET

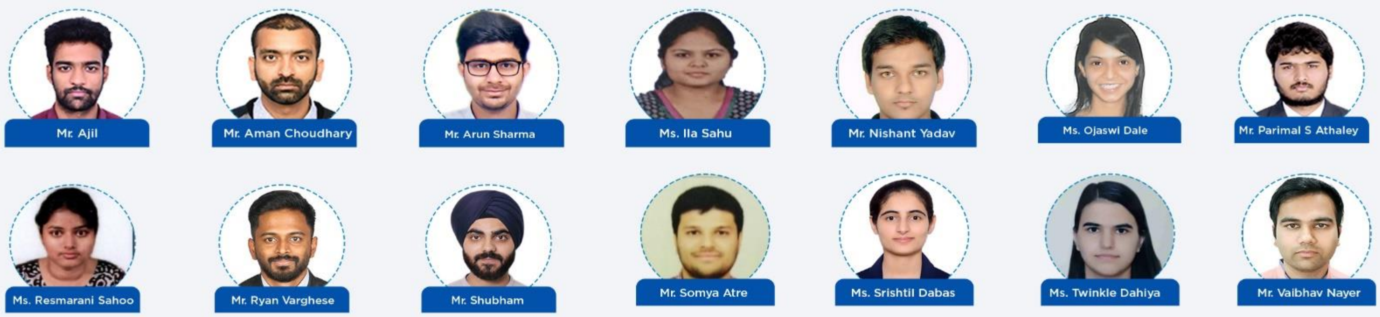
Public Private Partnership

EduTap

EduTap Hall of Fame

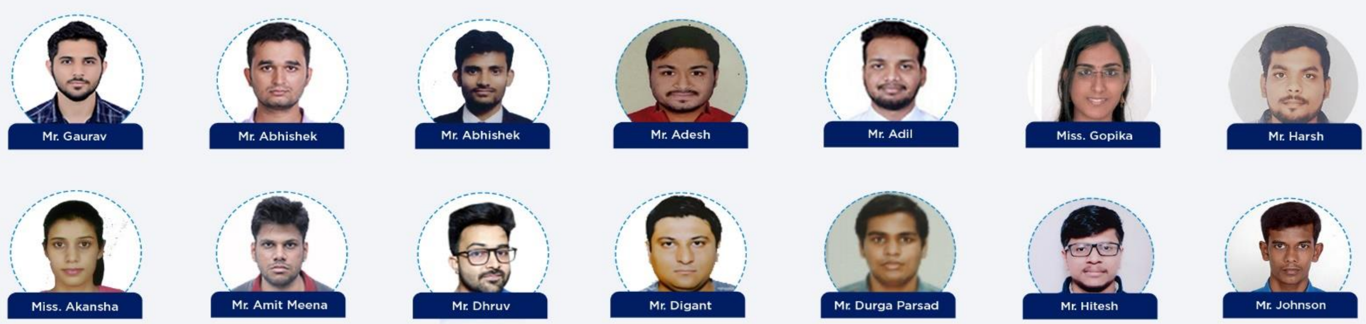
RBI Grade B 2020 - 21

198 Selections Out of 257



SEBI Grade A 2020

63 Selections Out of 80



NABARD Grade A 2020

65 Selections Out of 69

Important Points

1. This Summary Sheet shall only be used for Quick Revision after you have read the Complete Notes

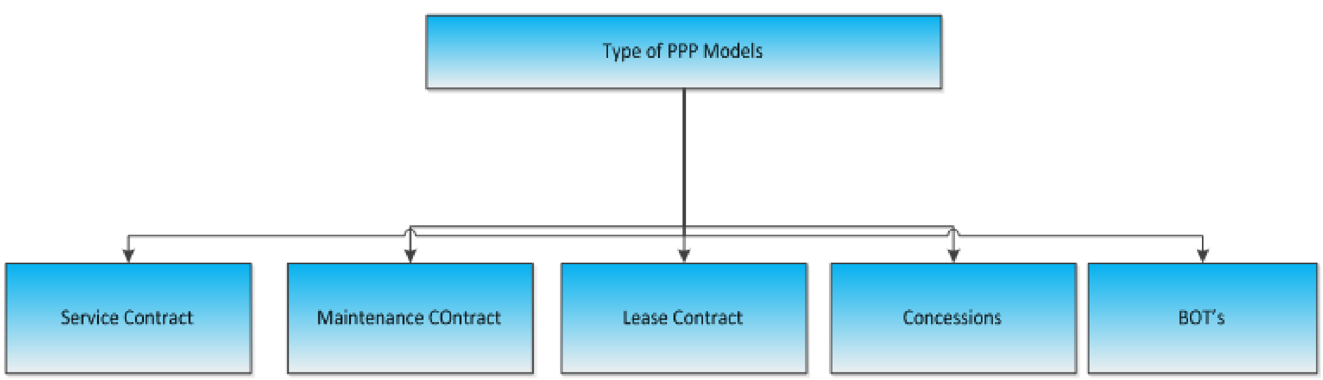
2. For Building Concepts along with examples/concept checks you should rely only on Complete Notes

3. It would be useful to go through this Summary sheet just before the exam or before any Mock Test

4. Questions in the exam are concept based and reading only summary sheets shall not be sufficient to answer all the questions

1 Summary Points

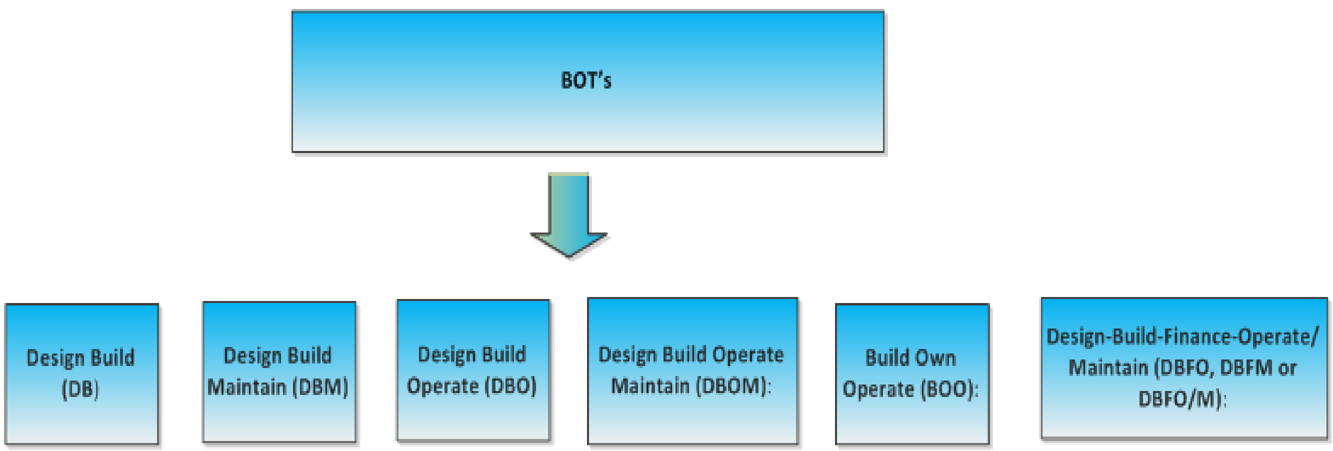
- **Public Private Partnership (PPP or 3P):** Represents contractual arrangement between a **public** agency (federal, state or local) and a **private** sector entity to deliver a service or facility for the use of the general **public**
- **Importance of PPP:**
  1. Limited Resources and Finances with the Government to execute big investments
  2. Need for Different institutional mechanisms to incorporate spirit of private efficiency
  3. Equitable risk allocation and mitigation between state and private agency
  4. Objective of government (providing pubic goods) and private sector (making profits) complement each other
- **Different PPP Models:**



- **Service Contract:** In this, the Government (public authority) hires a private company or entity to carry out one or more specified services for a period, **typically 1–3 years**. The **public**

authority remains the primary provider of the infrastructure service and contracts out only portions of its operation to the private partner

- **Maintenance Contract:** In this, some or all of the daily management, operation, control and authority is given to Private entity but **ultimate obligation for service i.e. loss and profits remains in the public sector**
- **Lease Contract:** In this, **responsibility for service is transferred from the public sector to the private sector** and the financial risk for operation and maintenance is borne entirely by the private sector operator through lease which is given for **10-20 years**. Although, **assets are owned by Public sector** and no capital investment done by Private sector
- **Concessions:** In this, **responsibility for the full delivery of services**, including operation, maintenance, collection, management, and construction and rehabilitation of the system is given to private agency. Here, **capital investment is done by the private sector** but public sector still owns the assets even during the concession period
- **BOT's (Build Operate Transfer):** In this, the private partner provides the capital required to build the new facility, Operate & Maintain (O&M) for the contract period and then returns the facility to Government as per agreed terms. **The private operator owns the assets for a period set in the contract and at the end of the contract**, **the public sector assumes ownership.** Different BOT models are:



- **Design Build (DB)(**also called **Build Transfer):** The government contracts with a private partner to design and build a facility and ownership is transferred to the government after completion of contract
- **Design Build Maintain (DBM):** Designing, building and maintenance of the facility is assigned to private sector but ownership still stays with the government
- **Design Build Operate(DBO)(**also called **Build Transfer Operate):** In this, the design, building and operating the facility is assigned to the private sector and the ownership stays with the government
- **Build Own Operate:** In this, the private entity is not required to transfer the ownership to the government and is given rights to finance, design, build, operate and maintain the project
- **Design-Build-Finance-Operate/Maintain (DBFO, DBFM or DBFO/M)**: The private sector designs, builds, finances, operates and/or maintains a new facility until the end of long-term lease

- **Steps Taken by Indian Government to Promote PPP's:**

1. **Viability Gap Funding:** Denotes grant to support projects that are **economically justified but not financially viable**. Provided as a capital subsidy to attract the private sector players to participate in PPP projects which is **20% of the project cost.** Grant under VGF needs to be approved by either the **Empowered Institution** or **Empowered Committee**

- **Empowered Institution (**up to **Rs. 100 crore** for each project**):**
    - Additional Secretary (Economic Affairs)
    - Additional Secretary (Expenditure)
    - Representative of Planning Commission not below the rank of Joint Secretary
    - Joint Secretary in the line Ministry dealing with the subject
    - Joint Secretary (FT), DEA -- Member Secretary
- **Empowered Committee (**up to **Rs. 200 crore** for each project**):**
    - Secretary (Economic Affairs)
    - CEO Niti Aayog
    - Secretary (Expenditure)
    - Secretary of the line Ministry dealing with the subject
- **Eligibility:**
    - Projects may be posed by the Central Ministries, State Government or Statutory Authorities (like Municipal Authorities and Councils), which own the underlying assets
    - Developed, financed, constructed, maintained and operated for the project's term by a Private Sector Company
    - Projects assigned through a transparent and open competitive bidding process
    - The project should provide a service against payment of pre-determined tariff or user charge
    - Company in which 50% or more of the subscribed and paid up equity is owned and controlled by a private entity

Revamped VGF scheme

Recently, the Cabinet Committee on Economic Affairs has approved continuation and revamping of the Viability Gap Funding (VGF) Scheme under the Public Private Partnership **(PPP) model till 2024-25** with a total outlay of Rs. 8,100 crore.

Extension of the Scheme to Social Infrastructure:

Sub Scheme -1:

Objective:

- To cater Social Sectors such as Wastewater Treatment, Water Supply, Solid Waste Management, Health and Education sectors etc.
- These projects face bankability issues and poor revenue streams to cater fully to capital costs.

Eligibility:

- The projects eligible under this category should have at least 100% Operational Cost recovery.

Contribution:

- The Central Government will provide a maximum of 30% of Total Project Cost (TPC) as VGF and State Government/Sponsoring Central Ministry/Statutory Entity may provide additional support up to 30% of TPC and the remaining project cost will come through private participation.

Sub Scheme -2:
Objective:

- To support pilot social sectors projects.
- The projects may be from Health and Education sectors where there is at least 50% Operational Cost recovery.

Contribution:

- In such projects, the Central Government and the State Governments together will provide up to 80% of capital expenditure and upto 50% of Operation & Maintenance (O&M) costs for the first five years.
- The Central Government will provide a maximum of 40% of the TPC. In addition, it may provide a maximum of 25% of Operational Costs of the project in the first five years of commercial operations.

2. **India Infrastructure Project Development Fund (IIPDF):**
   - ✓ **Transaction costs for PPP:** Costs incurred in feasibility studies, environment impact studies, financial structuring, legal reviews etc. before PPP projected in started
   - ✓ IIPDF provides financial support to cover these transaction costs
   - ✓ It is a corpus **Rs. 100 Crore** to quicken the process of project preparation
   - ✓ IIPDF contributes only up to **75%** of the project development expenses as an interest free loan and the balance **25%** is co-funded by the party

3. **PPP Appraisal Committee (PPPAC):**

- ✓ According to current rules, **PPP Projects in the Central Sector with cost exceeding Rs.100 crore or where the value of underlying assets is more than Rs.100 crore** (except Ports and NHDP projects) require Public Private Partnership Appraisal Committee (PPPAC) approval.
- ✓ **Please Note that for NDHP and Ports, the limit is 1000 crore.**

- PPPAC comprises of the following:
  - ✓ Secretary, Department of Economic Affairs (in the Chair)
  - ✓ CEO Niti Aayog
  - ✓ Secretary, Department of Expenditure;
  - ✓ Secretary, Department of Legal Affairs; and
  - ✓ Secretary of the Department sponsoring a project

4. **India Infrastructure Finance Company Ltd (IIFCL):**

- Wholly-owned Government of India company set up in 2006 to provide long term finance to viable infrastructure projects through a Special Purpose Vehicle
- **Eligible Sectors:** Transportation, energy, water, sanitation, and communication, social and commercial infrastructure
- Registered as a NBFC-ND-IFC
- IIFCL raises funds through long-term resources from both domestic as well as global markets
- As **senior debtor,** IIFCL provides long-term funds to infrastructure projects, taking an exposure of up to **20%** of Total Project Cost
- As **subordinate debtor** in consortium, IIFCL provides subordinate debt up to **10%** of the project cost
- Also provides **Credit Enhancement Facility** to infrastructure companies to by upgrading their bond ratings for refinancing to their existing loans which could be up to 20% of Total Project Cost

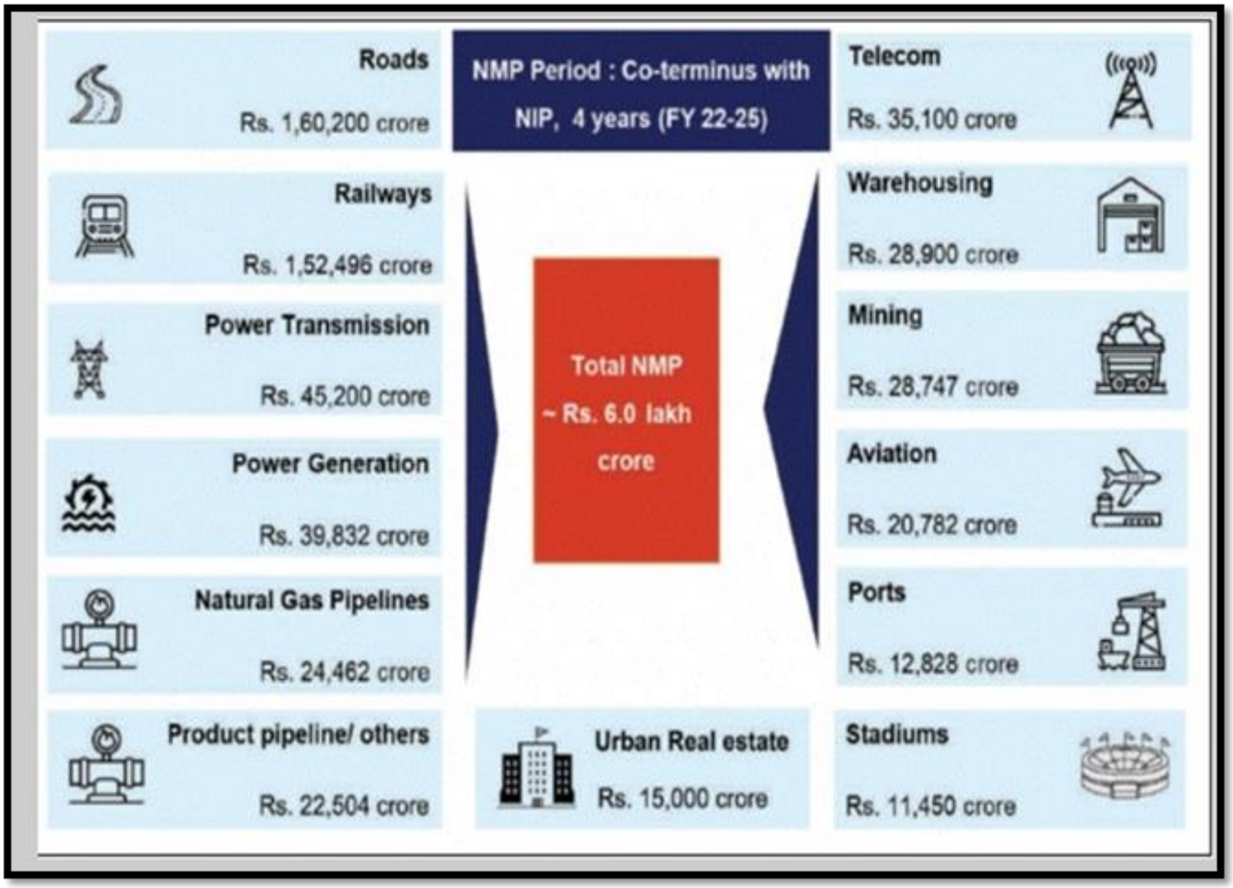
5. **Model Concession Agreement (MCA):**

- Spells out the **policy and regulatory framework for implementation of a PPP project**
- Like mitigation and unbundling of risks, predictability of costs & obligations; reduction of transaction costs and termination, etc
- **Model Concession Agreements have been set up for highways, transport, urban and other sectors to make sponsors and officials more comfortable with PPP projects. Moreover, the Government of India have also introduced the Model Concession Agreement – 2021 (MCA) for ports sector.**

6. **Hybrid Annuity model (HAM):** Specifically for stalled highway construction projects

- HAM is a mix between the existing **two models** – BOT Annuity and EPC
- **Build Operate and Transfer (BOT) Annuity Model:** In this, the developer builds, operates the facility and then transfers back to the government. In turn, government makes payment to the developer on 6 month basis after completion of project
- **BOT Toll Model**: a road developer constructs the road and is allowed to recover his investment through toll collection till 30 years mostly. Therefore, no government payment in this case
- **Engineering, Procurement and Construction (EPC) Model:** the costs, i.e. procurement of raw material and construction costs are met by the government. Government invites bids for engineering knowledge from the private players.
- **Hybrid Annuity:** payment is made in a fixed amount for a considerable period and then in a variable amount in the remaining period
- As per HAM,
  - ✓ Government contributes to **40% of the project cost in the first 5 years through annual payments (annuity)**
  - ✓ Remaining **60% payment is made on the basis of the assets created and the performance of the developer**
  - ✓ **Revenue** is the National Highways Authority of India **(NHAI)**

7. National Monetization Pipeline - There has been significant progress in recent times in increasing investments in the infrastructure sector through various programmes and initiatives. Recently, Indian Government has announced the National Monetization Pipeline, which proposes in monetizing INR 6 lakh crore worth important National Government assets from (4 years) Financial Year 2022 – 2025 by leasing these assets on a long - term basis to private players. PPP will be playing a crucial role in the implementation of National Monetization Pipeline.



- **Various advantages of public-private partnership (PPP):**
  1. Provides access to private sector finance
  2. They provide better infrastructure solutions than an initiative that is wholly public or wholly private
  3. Increased transparency in the use of funds
  4. They result in faster project completion and reduced delays on infrastructure projects
  5. Transfer of risks is the most important advantage of PPP projects
  6. Avoiding major investments by having a constant cash flow is an important driver when the state looks at the advantages of PPP.

- **Challenges in PPP sector:**
  1. Commercial Viability of projects
  2. Insufficient experience of the partners, particularly of the public sector while contracting PPP projects
  3. The mandatory expenses grow and the hidden long term debt arises for the government
  4. Long Gestation Period of the projects
  5. Negative financial impacts in the case the partnership breaks
  6. Transfer of Risk from the private sector to the public sector
  7. Focus more on Economic Benefits at the cost of social and environmental aspects
  8. Weakness in enabling policy and regulatory framework
  9. Limited Capacity to Manage PPP in Public Sector
  10. Lack of Political Will
  11. Varied Institutional Framework across different states

- **Vijay Kelkar Committee:** Committee on Revisiting and Revitalizing the PPP model of Infrastructure Development was set-up in 2015, headed by Dr. Vijay Kelkar. Recommendations:
  1. **Risk Allocation**: Signing up of **Model Concession Agreements** to distribute the Risk among all the stakeholders and **renegotiation of contracts** in case private entity feels that project is not viable during the re-course of the project
  2. **Obsolescing Bargain:** Represents loss of bargaining power related to tariffs and other matters in case there are abrupt changes in the economic or policy environment, which are beyond developer's control which gives the government authority an upper hand over the private developer after project completion. Therefore, **appropriate safeguards for the project developer should be built** into the contract
  3. **Renegotiation of Contracts:** In this regard, DEA has issued a guidance note for developing a framework for renegotiation of PPP contracts ("**Renegotiation Framework**") with particular focus on National Highway and Major Port concessions
  4. Banks and **financial institutions should be encouraged to issue deep discount bonds for** long-term capital at low-cost
  5. Strengthening of 3 main pillars of the PPP framework viz. Governance, Institutions and Capacity by setting up of **3PI** (a PPP institute of excellence)
  6. Amendment of **The Prevention of Corruption Act, 1988 to** punish corrupt practices while saving those who made genuine mistakes in decision-making
  7. Avoid **Swiss Challenge Method** in awarding contracts
     - **Swiss Challenge Method:** A form of public procurement which requires government who has received an unsolicited bid for a public project or services to be provided to government, to publish the bid and invited third parties to match or exceed it
  8. **Equity in the project may be offered to long-term investors including overseas institutional buyers after completion of projects**

9. **Independent sectoral regulators** should be set up as and when a new sector is declared to adopt PPP model
10. **Infrastructure PPP Project Review Committee (IPRC): For** evaluating and sending recommendations in time-bound manner for a stress in projects under PPP model
11. **Infrastructure PPP Adjudication Tribunal (IPAT): To** settle the dispute between public and private sector
12. **State owned enterprises and public sector undertakings should not be allowed to bid for PPP projects**
13. **Establishment of dispute resolution mechanism**
14. PPP structure should not be adopted for **small projects**

➢ **Way forward:**

- **Checking Viability**: PPPs should not be used to evade responsibility for service delivery to citizens. This model should be adopted only after checking its viability for a project, in terms of costs and risks.
- **Risk allocation and management**: Public-Private Partnership PPP contracts should ensure optimal risk allocation across all stakeholders by ensuring that it is allocated to the entity that is best suited to manage the risk.
- **Strengthening governance**: The Prevention of Corruption Act, 1988 should be amended to distinguish between genuine errors in decision making and acts of corruption by public servants.
- **Strengthening institutional capacity**: A national-level institution should be set up to support institutional capacity building activities and encouraging private investments with regard to PPPs.
- **Strengthening contracts**: The private sector must be protected against such loss of bargaining power. This could be ensured by amending the terms of the Public-Private Partnership PPP contracts to allow for renegotiations.

➢ **International Organizations**

ESCAPE: It stands for Economic and Social Commission for Asia and the pacific regions. ESCAP is supporting governments to implement measures to promote public-private partnerships, including through the development of training materials on assessing PPP readiness. It is an entity **under United Nations**. It has constituted **9 committees** to work in different areas

IPFA (International Project Finance Association): IPFA is a global, not-for-profit association for organizations involved in infrastructure and energy. It has as its members the key players within the industry, across both the public and the private sector, including financial institutions, project sponsors, operators, law firms and construction companies as well as government departments, local authorities and PPP units from around the world. Established in 1998, IPFA was initially created with the aim of raising awareness and understanding of project finance and PPPs and their crucial role in economic development. Over the past twenty years, IPFA has developed with the market to cover not only project finance but also infrastructure and energy in a broader sense. It remains, however, an independent body dedicated to promoting the interests of its members.

The principle objectives of IPFA are:

- To encourage networking and dialogue between the public and private sector.
- To provide up-to-date information on best practice, industry trends and new developments that can be applied to projects immediately.

➢ **Current Affairs:** Please read current affairs related to this topic as part of current affairs magazine. Questions in exam can be asked from current affairs