Public Private Partnership (PPP)
Public Private Partnership

What is PPP?

• Public Private Partnership means an arrangement between a government/statutory entity/government owned entity on one side and a private sector entity on the other.

• It is often done for the provision of public assets or public services, through investments being made and/or management being undertaken by the private sector entity, for a specified period of time.
• There is well defined allocation of risk between the private sector and the public entity.  
• The private entity who is chosen on the basis of open competitive bidding, receives performance linked payments that conform (or are benchmarked) to specified and pre-determined performance standards, measurable by the public entity or its representative.
Characteristics of PPP

• The private sector is responsible for carrying out or operating the project and takes on a substantial portion of the associated project risks.

• During the operational life of the project the public sector’s role is to monitor the performance of the private partner and enforce the terms of the contract.

• The private sector’s costs may be recovered in whole or in part from charges related to the use of the services provided by the project, and may be recovered through payments from the public sector.
Characteristics of PPP

• Public sector payments are based on performance standards set out in the contract
• Often the private sector will contribute the majority of the project’s capital costs, although this is not always the case
Advantages of PPP

• Access to private sector finance
• Efficiency advantages from using private sector skills and from transferring risk to the private sector
• Potentially increased transparency
• Enlargement of focus from only creating an asset to delivery of a service, including maintenance of the infrastructure asset during its operating lifetime
• This broadened focus creates incentives to reduce the full life-cycle costs (ie, construction costs and operating costs)
Relevance of PPP’s in India

• The Government of India identified public–private partnerships (PPP) as a way of developing the country's infrastructure.

• In the 1990s, during India's first liberalization wave, there were various attempts to promote PPPs.

• Construction of infrastructure in India requires large capital outlays and there is a deficit in supply.
Relevance of PPP’s in India

• It is only in the first half of the 2000s that the first PPPs were signed and implemented.
• Over fifty percent of major infrastructure development projects in Maharashtra state are based on 3P.
• In August 2012, the Prime Minister of India, Manmohan Singh, lifted the ban on the transfer of government-owned land, relaxed land transfer policy and did away with the need for Cabinet approval for 3P projects in order to accelerate the building of infrastructure.
Relevance of PPP’s in India

• India has systematically rolled out a PPP program for the delivery of high-priority public utilities and infrastructure and, over the last decade.
• One of the largest PPP Programs in the world.
• With close to 1500 PPP projects in various stages of implementation, according to the World Bank, India is one of the leading countries in terms of readiness for PPPs.
Relevance of PPP’s in India

• India has systematically rolled out a PPP program for the delivery of high-priority public utilities and infrastructure and, over the last decade.

• One of the largest PPP Programs in the world.

• With close to 1500 PPP projects in various stages of implementation, according to the World Bank, India is one of the leading countries in terms of readiness for PPPs.
Relevance of PPP’s in India

• The PPP Cell which was set up in 2006 in the Department of Economic Affairs (DEA).

• To provide key information related to PPP initiatives in India and to share PPP best practices for PPP practitioners whether in Government or the Private Sector.

• The PPP Cell is responsible for policy level matters concerning PPPs, including Policies, Schemes, programmes, Model Concession Agreements and Capacity Building.
Relevance of PPP’s in India

Roads:

Sixty percent of 3P projects are for road building and they represent forty-five percent of 3P monetary value. They are a part of the National Highways Development Project (NHDP). About 14,000 km (8,700 mi) of India's national highways are being converted to four-lane highways.
Relevance of PPP’s in India

• **Ports:**
  - Port building projects account for ten percent of projects and thirty percent of the value of 3P. Seaports constructed via the 3P model increased the handling of cargo in India by ten percent between 2008 and 2011.
  - Examples of port building projects include the Jawaharlal Nehru Port Trust (JNPT) in Mumbai and Chennai Port.
  - The Indian government expects the National Maritime Development Programme (NMDP) to be a 3P stakeholder.
various Government initiatives for PPPs

• The Government has facilitated the PPP sector by offering:

• **Viability Gap Funding (VGF) subsidy** - Viability Gap Funding of upto 40% of the cost of the project can be accessed in the form of a capital grant.

• **India Infrastructure Project Development Fund (IIPDF)** - Scheme supports the Central and the State Governments and local bodies through financial support for project development activities (feasibility reports, project structuring etc) for PPP projects
various Government initiatives for PPPs

- **IIFCL** - long-term debt for financing infrastructure projects that typically involve long gestation periods since debt finance for such projects should be of a sufficient.

- **Foreign Direct Investment (FDI)** - upto 100% FDI in equity of SPVs in the PPP sector is allowed on the automatic route for most sectors
Viability Gap Funding (VGF)

- The scheme aims at supporting infrastructure projects that are economically justified but fall marginally short of financial viability.
- Support under this scheme is available only for infrastructure projects where private sector sponsors are selected through a process of competitive bidding.
- The total Viability Gap Funding under this scheme will not exceed twenty percent of the Total Project Cost; provided that the Government or statutory entity that owns the project may, if it so decides, provide additional grants out of its budget, up to a limit of a further twenty percent of the Total Project Cost.
- VGF under this Scheme is normally in the form of a capital grant at the stage of project construction.
IIPDF

- The IIPDF would assist ordinarily up to 75% of the project development expenses.
- The IIPDF will be available to the Sponsoring Authorities for PPP projects for the purpose of meeting the project development costs which may include the expenses incurred by the Sponsoring Authority for achieving Technical Close of such projects.
- On successful completion of the bidding process, the project development expenditure would be recovered from the successful bidder.
- The procurement costs of PPPs, particularly costs of engaging transaction advisory services, are significant and often burden the budget of the Sponsoring Authority.
IIPDF

• Department of Economic Affairs (DEA) has identified the IIPDF as a mechanism through which Sponsoring Authority can source funding to cover a portion of the PPP transaction costs, thereby reducing the impact of costs related to such procurement on their budgets.

• From the Government of India's perspective, the IIPDF must increase the quality and quantity of bankable projects that are processed through the Central or States' project pipeline.
India Infrastructure Finance Company (IIFC)

• There is urgent need for providing long-term debt for financing infrastructure projects that typically involve long gestation periods.

• Debt finance for such projects should be of a sufficient tenure which enables cost recovery across the project life, as the Indian capital markets were found deficient in long-term debt instruments;

• IIFC was set-up to bridge this gap.
THANK YOU