



## Mains Practice Question

**Q.** Public Private Partnerships (PPP) are quintessential for addressing infrastructure gaps in the country, however, PPP projects in India face numerous challenges. Analyse. (250 words)

06 Jul, 2022 GS Paper 3 Economy

### Approach

- Give a brief introduction about Public-Private Partnership
- Analyse how Public-Private Partnership is quintessential for addressing infrastructure gaps
- Discuss the challenges involved in effective implementation of Public-Private Partnership in India
- Conclude by giving a way out

### Introduction

Adequate investment in infrastructure development is a prerequisite for higher economic growth. To bridge the infrastructure deficit, the Eleventh Five Year Plan (2007-2012) laid considerable emphasis on increasing the investment in physical infrastructure. Further, the Plan adopted a strategy of encouraging higher private investment in infrastructure, directly and through public-private partnerships (PPPs).

### Body

A **Public-Private Partnership (PPP)** is a long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility.

#### **Public-Private Partnerships (PPP) are quintessential -**

- To revive and increase the efficiency of the infrastructure projects by means of long-term collaborations between the public and private sectors.
- To develop a governance structure to facilitate competitiveness, fairness and transparency in procurement and industries.
- To have a coherent and strategic approach for communication and broad-based support for different stakeholders.
- To bring expertise and efficiency in terms of human resources, technology, and innovation.
- To attract funding from the different international agencies like the World Bank and the Asian Development Bank for quality in service delivery.
- To have risk-sharing by the private players.
- To induct capacity building and better regulation for the new ventures.
- To standardise some of the vital interpretations and processes of investment through different channels.

The ever-increasing growth in population has imposed tremendous pressure on State resources. In this situation, a public-private partnership (PPP) can offer a solution to resource scarcity by taking an associated risk of infrastructure. However, there are some challenges that need to meet, to have a strong PPP Model in India.

- **These challenges are as follows-**
- **Restructuring of existing Model Concession Agreements (MCAs):** Time and again, concerns have been raised regarding the rigidity of the MCAs. E.g.- Existing contracts focus more on fiscal benefits than on efficient service provision.
- **Enforcement and monitoring of terms of Concession Agreement:** It has been experienced that in a large number of cases, the project authorities do not discharge their contractual obligations in a timely manner which imposes additional costs on the private sector participants.
- **Disputes resolution:** Infrastructure projects are fraught with disputes that cause inordinate delays due to slow resolution processes.
- **Issues related to infrastructure financing:** Some of the major issues involved are: A large number of projects are struck or delayed turning many bank loans into Non-Performing Assets (NPAs) and constraining further bank lending to infrastructure projects.
- **Technical data availability and it's quality:** There are technical issues involved with new projects and sometimes it becomes difficult for the new entity to understand.
- **Vested interests leading to the development of skewed qualification criteria:** It results in poor quality in the investment process.
- **Fiscal uncertainties:** The Indian economy undergoes ups and downs in different sectors many times. So it does not provide stable fiscal viability for new investors.

The success of PPP to a large extent depends on optimal risk allocation among stakeholders, an environment of trust among stakeholders, robust institutional capacity to undertake grooming and implementation of PPP projects. Given the need for expanding demography, there is an urgent requirement to accelerate the flow of private capital into the infrastructure sector.

## Conclusion

Further, there is a need for implementation of some of the key recommendations of the Kelkar Committee Report including setting-up of national level PPP institution, a dedicated PPP tribunal, and a formal framework for post-award contract renegotiation. A mature PPP framework, along with a robust system shall enable the Government to accomplish the dream of a vibrant economy.