A quarter century of PPP

It is not that India did not have a history of private capital in its infrastructure development. The railways, in the latter part of the 19th century, were largely set up with sterling capital. Electricity distribution companies in Mumbai, Kolkata and Ahmedabad have existed under private control; as did private generation of power in pockets.

The early 1990s witnessed the green shoots of public–private partnership or PPP before it mainstreamed into economic policy. Spectrum's Kakinada and GVK's Jegurupadu power plants were two of the eight fast-track projects approved by the government in 1992. Infrastructure Leasing & Financial Services' 12-km long Rau-Pithampur toll road in Madhya Pradesh in 1995 pre-dated the massive road development programme that was to follow with private capital.

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However, it is fiscal 1996-97 that can be reckoned to be the official starting year of PPP. That year, an expert group on Commercialisation of Infrastructure Projects, chaired by Rakesh Mohan, submitted a path-breaking report advocating a significant role for private capital.

Following this report, 1997-98 saw a whole set of activities coming together. The Infrastructure Development Finance Corporation was formed; the Telecom Regulatory Authority of India Act was passed; the Tariff Authority of Major Ports was set up; and the private sector allowed into ports through an amendment to the Major Port Trusts Act. An ordinance was introduced, which brought into being the apex regulators in the electricity sector at both the Centre and states.

The erstwhile Planning Commission, recognising a significant "infra deficit", planned to raise the gross capital formation in infrastructure as a percentage of gross domestic product to 9 per cent by the terminal year of the 11th Plan (2007-12). The strategy crafted under Montek Singh Ahluwalia had as its cornerstone an aggressive PPP thrust. The India Infrastructure Finance Company Ltd was set up in 2006 to provide long-term financial assistance to PPP projects. Simultaneously, a series of model concession agreements were rolled out from the Planning Commission. The share of private capital moved up from 22 per cent in the Tenth Plan period (2002-2007) to 37 per cent in the Eleventh Plan (2007-2012), with aspirations to raise it to 48 per cent, had there been a Twelfth Plan. In recent times, private investment in infrastructure has been stagnating at around ₹3 trillion per annum, less than 20 per cent of total investments.

PPP started dipping from 2012 onwards due to inappropriate risk-allocation, aggressive bidding, "twin balance-sheet" problems, stalled projects, policy conundrums, mounting non-performing assets, and lack of dispute resolution.

Thus, when the National Democratic Alliance came to power in May 2014, it quickly changed tack to public funding of projects. It made some attempts to tackle the root causes of the problem as evidenced in Arun Jaitley's maiden Budget in July 2014 that proposed the setting up of an overarching institution called 3P India with a whopping ₹500 crore allocation. Further, in May 2015, the government constituted a nine-member committee headed by former finance secretary Vijay Kelkar, which submitted its report "Revisiting and Revitalizing PPP Model of Infrastructure Development" on November 19, 2015. The committee endorsed setting up "3P India" whose mandate would include coming to grips with complex PPP issues like renegotiation, independent regulation, equitable risk-allocation, amendments to Prevention of Corruption Act 1988, expeditious redress of disputes, and capacity building.

During this period, PPP version 2.0 soldiered on, in a limited manner, with the adoption of the annuity and hybrid annuity models that sought to substantially reduce the risk of private investment. New sectors like ropeways and effluent treatment plants were brought into the PPP ambit.

Now, PPP is again back in the reckoning with 100 per cent of the National Monetisation Pipeline target of ₹6 trillion and 40 per cent of the National Infrastructure Pipeline target of ₹111 trillion expected to be funded under PPP formats. That targets an expectation of ₹50 trillion of private capital over the next five years. Can these fresh targets be achieved without significant reform of the institution of PPP?

It is certainly a challenge. Almost all Indian corporations and commercial lending institutions are wary of investing in greenfield PPP projects, and foreign investors prefer operating brownfield assets. It has to be recognised, though, that in sectors like telecom, ports, airports, electricity transmission and renewable energy, PPPs have continued to deliver, overcoming many adversities on the way.

In her latest Budget speech on February 1, the finance minister emphasised capacity-building measures. Following this up, the finance ministry in July announced the setting up of a new body called the Infrastructure Finance Secretariat (IFS), which is expected to play an integrative role in the revival of the PPP ecosystem. The IFS comes on the back of two special financial institutions set up by the NDA government to support PPPs. One was the National Investment and Infrastructure Fund set up in 2015 to provide equity support; and the National Bank for Financing Infrastructure and Development — set up in 2021 as a development financial institution.

Under the current mantra of channelling public funds to build greenfield projects; and private capital to "monetise" brownfield operating assets, PPP may well be set to see a revival. That would be version 3.0 of PPP and mark a quarter century.

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