Public-Private Partnership in Emerging Indian Economy

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Vibrant and incredible India has become an issue of discussion, deliberation and jealousy for international community. Anyone may recall last 18 years 6 times Lok Sabha elections, 7governments, 6 Prime Ministers but one direction, that is 7- 8% GDP in a flow with right and desired macro economics indicators. India, the fastest growing free market democracy is a popular brand name in international markets. No doubt the economic policy of 1991 has changed the entire scenario of Indian economy. This crisis generated economic policy removed the traditional barriers of economic and industrial development. In fact, this was the first and foremost Indian public policy who had forced to change not only the Licence-Quota-Permit Raj but the mindset of the peoples of all segments of the society too. Indian economy is the fourth largest in the world as measured by purchasing power parity and twelfth largest in the world measured in US $ one trillion (2007). Traditional *Mandis* are being replaced by *malls. Postcards* have been replaced by cell phones and indigenous water huts (*Pyau*) have been replaced by packed mineral water bottles. The so called land of snake charmers, beggars, natural disasters, exotic tourist destination, spicy food, bollywood and ethnic huts is now known as India the international reliable brand, shoddy quality, low cost, software and knowledge hub. India provides first class medical care on third class rates. Chancellor of Germany **Angela Merkel** says—"Thanks to its comprehensive economic reforms and step-by-step opening to the free market, India has for many years recorded above-average growth rates, particularly in industry and services." Despite, all the criticisms India's economic development has proved that democracy does work.

The shiny image of present Indian economic development is not the result of sole efforts of government but private sector helped a lot. Public-private partnership as analysed by Vice-Chairman of Planning Commission, Montek Singh Ahluwalia is—"PPP should not be seen as public partnership in private projects. It should rather be viewed as private partnership in public projects." PPP may be seen in many forms like—Contracts (Service of Management), Lease, Concessions, Greenfield Projects (BOT, BOLT, BOOM, BOO, BOST, BOOST),

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Brownfield Projects (RLT), Divestitures (DBFO, DCFOM, DECFM, DCDFOM) etc. PPP is supporting **4Ps** (Policy, Plan, Project, Programme) of development administration so that government can release its burden of sole responsibility of development. As per economic experts opinion PPP is not just a new way of financing India's infrastructure deficit but it is a fundamental rewiring of the relationship between the state and market. The experience of other countries suggests that it should be possible to increases private investment in infrastructure in India from its current level of 1% of GDP to 2%. Chile has succeeded in increasing its infrastructure investment to a level of 5 percent of GDP.[1] The government of India has issued "Guidelines of Financial Support to PPPs in Infrastructure" in 2005-06. The projects related with urban development, urban transport, power, water supply, and sewerage, solid waste management are on high priority.

Paradigm Shift

It is quite interesting to note that every socio-economic, political and administrative system is passing through paradigm shifts. The New Public Management (NPM) movement and Public choice theory in Public Administration have changed the traditional dichotomy between public and private administration as well as the pure socialistic and total welfare concept of the state. Public choice theory is an economical concept (economic of politics) applied in government sector believes that rational choice of human beings is the core theme, so the individual should be the unit of analysis.[2] Man, by nature seek optimum satisfaction and fulfilment of his or her own interests. Public choice theory and new public management both are aimed to greater efficiency, effectiveness and economy in bureaucratic set up. As per analysis made by **Prof. S.R. Maheshwari**—"The public choice theory abolishes the monopoly of the government in respect of the supply of public services it instead introduces market. As under the public choice theory, government agencies get exposed to competition, there will be a continual search for improvement the service standards. This promotes decentralisation also as the service, users get the choice to choose between competiting service suppliers."

According to **Richard Common** new public management is used an acronym to describe a vast range of contemporary administrative change. It has become a very popular concept, the secret lying "in its appeal as an attractive solution to the problems of big and inefficient governments."[3] The buzz word in public administration are downsizing (in USA it is known as 'Rifing'—Reduction in force), resource squeeze, cut back management, privatisation, outsourcing, marketisation, quasi-markets, surrogate markets, contractualisation, costomerisation, agencification, neo liberalism and new right.

For a common man PPP in India is characterised by 'toll tax' being collected at various highways and bridges. India has the second largest road network (3.3 million km.) in the world. Roads carry about 70 percent of the freight and 85 percent of passenger traffic. The ambitious National Highway Development Project (NHDP) of the government is at an advanced stage of implementation with an outlay of US $ 60 billion. The golden quadrilateral project is aimed to connect four metros—New Delhi, Mumbai, Chennai and Kolkata with the construction of East-West and North-South corridors to enable higher volume movement of both passenger and cargo traffic. About 239 contractors for 15803 km of highways are working and by 2012 along the PPP technique an opportunity worth over US $ 60 billion.

In NHDP, 66 projects with total value of about US $ 6 billion were implemented through BOT (42 toll projects and 22 annuity projects). After two phases of NHDP the government of India is convinced of the merits of PPP and have decided to implement all the NHDP projects in future through BOT and to attract the private sector to the project that are not commercially viable but considered essential, the government of India has established a Viability Gap Funding (VGF) mechanism to provided a grant of up to 40 percent of the project cost. It must be noted that North Delhi Power Limited, one of the privatised distribution companies in Delhi had achieved very impressive reduction in aggregate technical and commercial losses over the 4 years since privatization. US-India Agreement of Peaceful Nuclear Co-operation (123 agreement) will also provide new avenues for PPP and overall economic development.

Regarding ports, significant investment has been made on BOT basis by foreign players including Maersk (JNPT, Mumbai), P & O Ports (JNPT, Mumbai and Chennai), Dubai Ports international (Cochin and Vishakhapattam) and PSSA Singapore (Tuticorin). Minor ports are being developed by domestic and international private investors. Pipavav ports by Maersk, Mundra ports by Adani group (with a terminal operated by P & O). A massive capacity expansion programme is currently underway to raise cargo handling capacity of major ports to close to 1000 million tonnes by 2014.

Future Perspective

Economic Affairs Department of Ministry of Finance, Government of India has made as assessment that in coming five years a total estimated opportunity of US $ 25-30 billion in highway and road sector, 200 billion dollar in irrigation projects, 25-30 billion dollar in refinery and petroleum sector, 20 billion dollar in ports and 15-17 billion dollar in airports. The Indian Railway has planned to opt PPP in its 40% development projects in Eleventh Five Year Plan period.

It is estimated that US $ 488 billion (20,01,776 crore rupees) would be required in the infrastructure sectors of the country during 2007-2012. **India Brand Equity Foundation** (IBEF), a public-private partnership between the ministry of commerce and industry, Government of India and the Confederation of India Industry (CII) is aimed to effectively present the India business perspective and leverage business partnership in a globalising market place.[4] IBEF has indentified following exciting opportunities for MNCs—

(i) Agriculture Equipments.
(ii) Automotive—Auto components.
(iii) Consumer durable—construction equipment and electrical equipments.
(iv) Electronics.
(v) Engineering Industry.
(vi) Food processing.
(vii) Furniture.
(viii) Healthcare.
(ix) Inorganic chemicals.
(x) IT and ITes machine tools.
(xi) Metals.
(xii) Oil and Gas.
(xiii) Power.
(xiv) Textiles and Apparel.
(xv) Real Estate.

(xvi) Rubber and Plastics.
(xvii) Pharmaceuticals.

According to IBEF growing markets, rising proportion of saving and investment in GDP, investors confidence and growing infrastructure spending will help maintaining the growth of the country. It is also estimated that over 190 MMT of refining capacity will be required by 2010 in addition to the 120 MMSCMD of additional demand for natural gas is expected over the next five years.

In urban India, the projected demand for 370 million sq. ft. of commercial space, 20 million houses and the addition of 50,000 hotel rooms and other amenities by 2010 represents an opportunity worth US $ 50 billion. According to IBEF, an additional corpus of US $ 11.5 billion has been earmarked to be spent on urban infrastructure across 60 cities. In the civil aviation sector, passenger traffic is projected to cross 100 million passengers per annum by 2010. The Directorate General of Civil aviation, Government of India estimates that India would add an additional 450 aircraft to its existing fleet of 215 aircrafts over the next five years. Similarly, India has 12 major ports and 185 minor ports along its 7517 km of cost line. Major ports handle 75 percent of the total traffic and the volume of cargo handled by these ports has increased by 9.5 percent per annum-over the last 3 years. Fortunately, the private sector is actively involved in building and managing India’s ports.

Power generation is the priority sector of country’s XI five year plan. India’s high GDP has led to a higher appetite for energy. India required an additional 100,000 MW of power energy capacity and an additional 60,000 circuit km of transmission network by 2010. There is a total investment opportunity of about US $ 200 billion over a seven year horizon. China has increased its power consumption rate by 250 percent and it is the main indicator of growth rate of modern economics. After China and US, India has emerged as the third largest telecom network in the world and is the world’s fastest growing telecom market. It adds over 8 million customers every month (an average of 200,000 new connections are added per day). Overall tele-density in December, 2007 stood at 22 percent up from 12.18 percent in February, 2006. Eminent Economist **Prof. Jagdish Bhagwati** Says—“In a developed country you are busy in receiving telephone calls but in a developing country you are busy in making telephone calls." India is busy in receiving international calls. Healthcare, real estate, retail, food processing, automobiles, consumer goods and social services etc. are some other sectors requiring huge investment and participation of private sector in government efforts. Keeping in mind all these opportunities president and chief executive of siemens **Peter Loescher** said—"I have never seen India so dynamic, vibrant and full of business opportunities."

Special Economic Zones (SEZ)

Special Economic Zones or SEZ are the unique example of PPP. With a view to provide an internationally competitive environment for exports the Government of India had announced a SEZ Scheme in April, 2000 and it was expanded with parliamentary act "The Special Economic Zones Act, 2005" with effect from June 10, 2006. The objective of SEZ include making available goods and services free of taxes and duties supported by integrated infrastructure for export production, expeditious and single window approval mechanism and a package of incentives to attract foreign and domestic investments for promoting export-led growth. At the time of enactment of SEZ act there were 11 functioning SEZs in the country. Seven SEZs had been set up by central government and four by private/joint/state sector. Before introducing SEZ scheme Export Processing Zone (EPZ) model was existing in the country. India was one of the first in Asia to recognize the effectiveness of the EPZ model in promoting exports with Asia's first EPZ set up in Kandla in 1965. At present 1897 unit in 513 formally approved SEZs are going to lead the creation of employment for large number of unemployed rural youth. Total investment after SEZ Act is US $ 1833 million and employment of more than 1 million people. Planning commission estimates that PPP will account for 30 percent of the estimated US $ 5.5 trillion infrastructure investment required in the 11th and 12th five year plans.

Challenges Ahead

In spite of fast growing economic indicators, the social sector of the country is not a matter of satisfaction. The *India—Bharat* divide or Rich-Poor wide rift, slow and steady growth of agriculture and its productivity, bottlenecks in manufacturing field and of course epidemic of corruption are the issues of concern. Approach paper of XIth five year plan highlights some of the major challenges as following[5]:

(i) Providing essential public services i.e. education, curative health, shelter social security, drinking water, quality food and livelihood for the poor.

(ii) Regaining agriculture dynamism.

(iii) Increasing manufacturing competitiveness.

(iv) Developing human resources.

(v) Protecting the environment.

(vi) Improving rehabilitation and resettlement practices.

(vii) Improving governance.

(viii) Regional and sectoral imbalance, disparities and divides.

Regional imbalance is a serious concern for the policy makers and higher echelon of bureaucracy. The differences across the states of the country have long been an issue but increasingly there is recognition of the problem of severe imbalance with the states. The Status of FDI in various states is enough to explain the position of Bi.Ma.R.U. States (Table No. 1). Bihar, Madhya Pradesh, Rajasthan, Uttar Pradesh, Uttrakhand, Jarkhand and Orissa are comparatively sluggish states. Similarly the Human Development Index (HDI) in these low FDI states is a matter of concern. In other words, some of the states of country are neither good in economic development nor in social sphere. It is a well established theory of economic development that poverty of a particular place is a permanent threat for the prosperous places.

A World Bank Report on PPP in highways states—"In the development of PPP project five types of constraints must be overcome. These are political and bureaucratic, legal and regulatory, financial, methodological and implementation." In short, pretty much every aspect of government functioning. It is the high time to make drastic changes in bureaucratic set up of the country, otherwise the desired outcome of the PPP would not be seen. **Laurence Peter** said—"Bureaucracy defends the status quo long past the time when quo has lost its status."

The approach paper **of XIth Five Year Plan** indicates that—"Because PPP, involve dealing with the private sector, they sometimes give rise to suspicion that corporate investors are getting a favoured treatment. Transparent processes and consultations with stakeholders combined with effective competitive biding for PPP projects help in improving perceptions and enhance the acceptability of PPP project. This approach also provides the requisite comfort to public servants who are responsible for awarding projects to private entities. The key to making PPPs acceptable is to create an environment where PPPs are seen to be a way of attracting private money into public projects, not putting public resources into private projects." PPP Concept may play its crucial role in nation building through construction, services and a new culture of 21st century's knowledge based society.

Nation building is a complex dynamics of ideological, philosophical, political, socio-economical and cultural impactional forces. Since independence, the simultaneous role of public and private sectors in nation building activities was widely acclaimed as an effective socio-economic management policy in India. The period 1950-80 witnessed a greater role for public sector enterprises under the socialistic pattern of society. Liberalisation, Privatisation and Globalisation (LPG) throughout the world made tectonic shifts in favour of a decisive role for the private sector.[6] Some social enterprises have proposed, or are operating, partnerships with the state and commercial partners which they call Public Social Private Partnership (PSPP) or Public-People-Private Partnership (PPPP). The subsidiarity concept also advocates lesser role of government and greater role of community in terms of development.

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Table No. 1

FDI in Various States

(Approved FDI from April, 2003 to February, 2008)

S.No.	State	Number of Projects	FDI in Million Dollar
1.	Maharashtra	917	5834
2.	Karnataka	520	1649
3.	Delhi	698	1505
4.	Andhra Pradesh	233	1464
5.	Punjab	26	1125
6.	Tamilnadu	413	834
7.	Gujarat	108	548
8.	Chhattisgarh	4	415
9.	West Bengal	84	161
10.	Haryana	66	108
11.	Uttar Pradesh	58	73
12.	Kerela	51	72
13.	Rajasthan	26	62
14.	Orissa	6	43
15.	Chandigarh	19	29
16.	Others	429	1490

(11)

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Abstract

Brand India, the fastest growing free market democracy of the world is doing miracles. The LPG era has changed country's socio-economic, administrative and political scenario. Mandi to mall, water hut to bottled water, postcard to cell phone, socialistic mixed economy to capilistic mixed economy and more over public to private, the omnipresent paradigm shifts are making new destinations. Public-private partnership is the result of the seeds sown by new economic regime and public choice theory of economic politics. Big opportunities in infrastructure, power, petroleum, highways, civil aviation, ports, telecommunication, health and various public service sectors are inviting private participation in government domain.

Date-May 18,2009

Editor

Ashwattha, YASHADA. Pune

Sir,

Please find enclosed herewith an article on " Public- Private Partnership in Emerging Indian Economy" for publication in your in house journal.

I certify that this is my original work and this article has neither been published nor been sent elsewhere for publication. Please do consider.

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(S.K.KATARIA)