Essay: Is the criticism that PPP model of development is more of a bane than a boon in the Indian context justified?

Public Private Partnerships (PPP) model of development is no alien concept to India. In the age of the Chola kings as well the state used to give tax concessions and land grants to those who got tanks and canals built. Closer to our times, the construction of Indian railways is a classic example of PPP in operation. Post Independence, given our explicit preference for the state led development, the PPP took a back seat for some time. However, after liberalization PPP is back with a new vigor. Thus in the 10th Five Year Plan nearly 21% of the expenditure on infrastructure came from the private sector, this climbed to 33% in the 11th Five Year Plan and in the 12th Plan it is expected to be about 50%.

Clearly our planners think that PPP is the way forward, so we must pause here and examine the rationale behind preferring it.

The biggest rationale, perhaps, in favor of PPP is that the government simply doesn't have enough money. After all, still not a generation has passed when one had to wait for years to get a landline telephone connection. Just imagine, would we have been able to scale up our education, power, roads, ports and airports to meet the demands of a rapidly growing economy like ours? Reliance on public funds alone would have choked off our growth even before it could have taken off.

Another reason for preferring PPP is that the governments are slow and tend to work in silos. Thus a project is broken into many parts and every part is handled by different people / departments. They tend to work in vacuum unmindful of what is happening to the other part. But a project is a project and needs the success of all its parts for it to bear fruits. A good example here is the case of roadways. While road development is a part of the 'plan expenditure', road maintenance falls under 'non-plan expenditure' and is often neglected. But what is a road without maintenance! PPP overcomes this by treating the project as a single unit. So the operator itself is required to maintain the road in a good condition.

Finally, PPP is attractive because it is in alignment with the twin pillars of modern economic logic. These pillars are -

- Everyone should only do what he is good at or in other words everyone should assume only the risk one specializes in; and
- Governments must step in to correct the market failures.

PPP enables separation of jobs. Thus the job of the government is to provide land, help the project in meeting various regulatory requirements while the job of the private party is to build and operate. Moreover wherever the social good is more and private benefit is less (for instance a road connecting a village to the highway), the government can always correct the likely market failure by its Viability Gap Funding Scheme.

Despite these, many criticisms are levied against PPP. Perhaps the biggest among them is that it breeds corruption and rent seeking. If there is any truth in the CAG reports on coal, 2G, GMR or in the joint parliamentary committee report on CDSCO then indeed there appears to be a serious flaw in the model. However, a closer examination tells us that the flaw lies not in the model per se but in the method of implementation of the model. The alleged corruption happened in coal and 2G because of opaque processes and in GMR and CDSCO because of the weakness of the regulator. If we had transparent processes in coal and 2G and strong regulators in GMR and CDSCO cases then the corruption would never have happened. Moreover, by no means is corruption limited to PPP only. Should we also close down MGNREGS and NRHM because there have been reports of corruption? No, clearly no. We should instead find ways to tackle such corruption.

Another criticism levied against PPP is that often the 'public purpose' in the PPP is pushed to the background and private operators work simply to maximize their own profits. A case can be made out of the many 'super profitable' toll roads like the Jaipur – Kishangarh one and the KG gas basin project.

While this is a meritorious criticism, it must be emphasized that it is again specific to the implementation of the model. If the terms and conditions of the project clearly link the rewards to the private operator to certain well defined public good then such a situation will not arise. For instance, while auctioning the coal fields to power producers, we should award the coal to the party which will provide electricity at the lowest cost. There will be no contradiction between transparency and public good then.

Next a case is made out that in PPP mode there is information asymmetry. Because the operator is closest to the project, he can take the government for a ride. An example here is the KG basin project where now the wells are full of water. 'Coincidently' the operator is also demanding that the gas price be raised from $4.2 per mmBtu to $14 per mmBtu.

The government has appointed the Rangarajan committee for that. And one of its ToRs is to specifically look into ways to monitor the project more effectively. Perhaps making the initial terms and conditions of the project clearer and having more regular and better audits can help here.

Then some argue that the infrastructure projects require high end technology and have long gestation periods and hence are not suitable for private operators. While in the 50s and the 60s this argument could have held great merit, today our companies own some of the most sophisticated technologies and have finished some massive projects.

Finally before writing PPP off, one should think of what really is the alternative? Clearly a return to the public funding is ruled off due to the reasons mentioned earlier. Similarly total reliance on private markets would generate their own complications as well. There would be massive market failures – there would be no PURA, no electricity in our villages and who will teach our children? A good example of what can go wrong in private markets is the case of micro finance in Andhra Pradesh while that of what can be right with PPP is the case of self help group based finance in Assam. Here the state government assists these SHGs by providing easy credit from the Rajiv Gandhi Vikas Nidhi.

Thus what we need is transparency in procedures and strong, independent regulators. The functions of policy planning, implementation and regulation must be separated. It may also be a good idea to make these regulatory bodies report directly to the parliament. After all, isn't the parliament the supreme regulatory body in our country? Then to check the information asymmetry problem, we need better terms and conditions and audits.

Perhaps then PPP can truly be a boon for India.