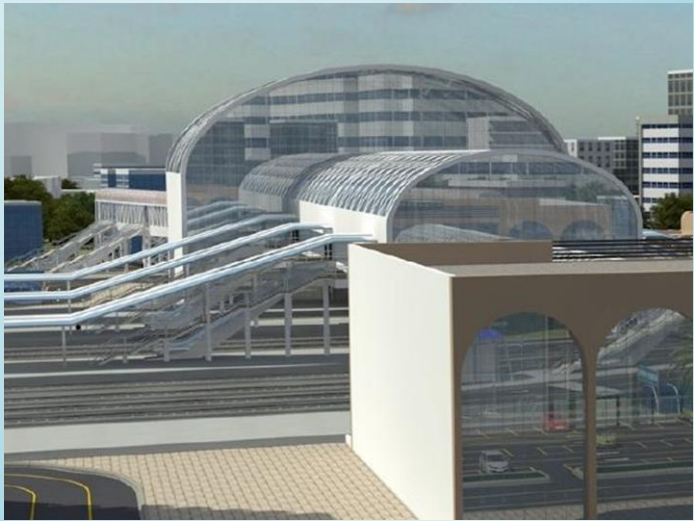


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# News Clippings on Public Private Partnership



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## Partnership lessons

Indian Express July 30,2019  
TV Somanathan, Gulzar Natarajan.

### **On public private partnerships, India must learn from UK. Be realistic, not ideological**

As India deepens private participation in infrastructure through Public Private Partnerships (PPPs), it is an opportune moment to explore the lessons from the UK, the pioneer in the use of PPPs and privatisation in infrastructure

In 1989, the UK government handed over water and sewerage services to private monopolies after assuming the sector's £4.9 bn debt and giving a £1.5 bn one-time grant. An analysis of water regulator Ofwat's accounts shows that the companies have since piled up £51 bn in debt and paid out £56 bn in dividends. In the 10 years to 2016, the nine companies paid out £18.1 bn in dividends from post-tax profits of £18.8 bn. They financed maintenance and improvements in infrastructure almost entirely by debt, despite generating enough cash to cover the investments out of internal resources. A study found that refinancing all the equity and debt capital with public debt would reduce costs by

£2.3 bn a year and lower household bills by 40 per cent.

In the same 10 years, Thames Water, which services London and was owned by infrastructure fund Macquarie, paid out £1.6 bn in dividends, assumed £10.6 bn in debt, ran up a £260 mn pension deficit and paid no UK corporate tax. In its 11 years of ownership, Macquarie generated 15.9-19 per cent returns. Interestingly, Scottish Water, the only one of the 10 companies which has remained public, with similar efficiency and quality, is the least leveraged and has the lowest tariff, despite investing 35 per cent more than the rest over the last 16 years.

The balance sheet is similar with the railways. Privatisation unraveled quickly with the rail track operator being re-nationalised for safety reasons. The remaining private part, train operators, is heavily subsidised, costing £3.3 bn in 2016-17. Despite rising fares, public spending has nearly doubled in real terms from £2.3 bn to £4.2 bn from 1996 to 2016-17. In the 2012-16 period, these private companies paid out as dividends £634 mn of the £868 mn operating profits. A 2011 government report found the cost of running UK railways 40 per cent higher, and fares 30 per cent higher, than the rest of Europe.

Cost per passenger kilometre in 2010 was the same as 1996, despite vastly expanded usage. Asset stripping by high dividends and higher prices for consumers were a feature in electricity and gas too.

A National Audit Office (CAG equivalent) assessment of the UK's pioneering Private Finance Initiative (PFI) found that schools and hospitals built with PFI are 40 per cent and 60 per cent more expensive than their respective public sector alternatives. Using the government's lower borrowing cost to discount the cost of projects, it found that very few PFI projects would have passed the Value for Money test. It concluded that the country had "incurred billions of pounds in extra costs for no clear benefit".

The balance sheet on service quality is not much better. Over 2000-11, the reliability and punctuality of British rail increased from 88 to 91 per cent, a small increment given the advances in digital technology and massive public investments. Skimping on investments on the less salient parts of the privatised water and sewerage utilities has taken its toll on the environment. A 2018 Environment Agency report stated that only 14 per cent of English

rivers met the minimum standards, down from almost 25 per cent in 2009. Other studies have traced this to release of untreated sewage, attracting a slew of large fines, including a £20.3 mn fine in 2017 on Thames Water for dumping 4.2 bn litres of sewage in a case described by the judge as “borderline deliberate”.

An early 2018 poll by Legatum Institute found that 76-83 per cent favoured renationalising the railways, energy, and water industries. The Labour party has announced that it would renationalise the utilities. Finally, in his 2018 Budget speech, after 716 projects since 1992, the Chancellor of Exchequer formally brought down the curtain on PFI saying he would never sign a PFI contract.

How relevant is the UK experience to India? In the UK, the starting point in terms of efficiency and service quality was high, and corruption in service delivery low. The Indian public sector suffers from peculiarly Indian constraints. Political interference in recruitment, competitive trade union activity (witness the posters in every railway station), rigidities on salaries and writs in courts on service matters, reduce the efficiency of personnel management in the public sector. Activities of oversight agencies — Vigilance,

Comptroller and Auditor General etc — cause extreme risk aversion in decision taking, reducing efficiency of procurement and operational decisions.

The starting point in India may often be a public agency which is inefficient, corrupt at the point of contact with the citizen and providing very poor service. With a much lower starting point, it is quite conceivable that private providers may be operationally more efficient and give better service. To that extent, the case for PPP is stronger in India than in the UK.

On the other hand, the regulatory capacity in India is weaker. The unambiguous lesson from the UK is that capable regulators could not prevent asset stripping and skimping on investments. There is nothing to suggest that this would not be repeated in India. Also, using PPP purely for off-balance sheet financing to reduce the short-run fiscal deficit, is penny-wise and pound-foolish because the cost of borrowing of the private sector is much higher.

Therefore, while encouraging PPP, India must be realistic, not ideological. The need is to tread cautiously. For a start, PPP must not be a short cut only to save money or bridge fiscal gaps or

transfer risks; it should be used to improve service quality or bring efficiency improvements. Second, project design and the PPP components need to be carefully chosen. For instance, outsourcing labour-intensive and customer-service operations, while retaining pricing and investment in public hands, may bring in efficiencies without under-investment or over-pricing. Given the higher cost of private capital, and the inevitability of delays and related cost over-runs, construction is best financed with public borrowing though the operating asset could then be privately operated. Third, since it is impossible to write perfect long-term contracts, renegotiations are inevitable. Clear principles and a mechanism for renegotiations without moral hazard need to be planned for.

The writer is an IAS officer, batch of 1999, and a graduate student at the Harvard Kennedy School, US. Views are personal.

<https://indianexpress.com/article/opinion/columns/infrastructure-sector-public-private-partnerships-india-union-budget-ppp-model-5861815/>



## Policy | Are PPPs the road ahead for Indian Railways?

***Praseeda Mukundan , Senior Research Associate at  
CPPR- Centre for Urban Studies, Kochi.***

The technological advancements made in the rail sector give a positive message but demand huge capital investment, which will require private participation.

Indian Railways is one of the largest rail networks in the world carrying over 23 million passengers and 3 million tonnes of freight every day. With 1.3 million employees, it is also one among the largest employers in the world. The NITI Aayog's report on reviewing the impact of social service obligation by Indian Railways stated that the social service orientation of the passenger transport business impacts Indian Railways' flexibility to operate it on commercial principles. Given this nature of operation, the railways has suffered consistent losses in the passenger transport business.

Additionally, the cross-subsidisation of low passenger fares by high freight fares has resulted in the shift of freight movement to road transport. The National Transport Development Policy Committee Report 2014 showed that over

the past five decades, 59 per cent of freight transport has shifted from rail to road. To arrest this declining trend, various transformative measures were taken emphasising on prioritising private investments in areas such as rolling stock, freight corridors, etc.



In her Budget speech earlier this month, Finance Minister Nirmala Sitharaman proposed a Public-Private Partnership (PPP) model to unleash faster development, rolling stock manufacturing and delivery of freight services.

The Budget estimated an investment of Rs 50 lakh-core in railway infrastructure for the period of 12 years, from 2018–2030. The overall budgetary support to the schemes of the Ministry of Railways increased from Rs 55,088 crore (2018–19) to Rs 68,019 crore. Considering the capital expenditure outlays of

the railways, private financing becomes an obvious choice of action for the stated exigencies.

In pursuance of this, the Piyush Goyal-led Indian Railways under its 100 days' action plan envisaged the corporatisation of seven production units, which is clubbed into a new entity called the National Rolling Stock Company. The larger objective is to alleviate fiscal stress, promote operational efficiency and enhance railway systems through technology partnerships. At present, there is an excess dependence on budget allocation for internal arrangements of the railway. Limited public funding translates into restricted access to state-of-the-art technology.

The proposed move is expected to bridge the gap by allowing markets to avail funds for operations and make rail enterprises financially sufficient. Corporatisation is the initial step towards a greater private sector engagement. It is characterised by a recalibration of service expectations and restructuring of traditional arrangements in a way that would realign its resources with market needs, and thereby enhance the economic value of the system.

## **Where to invest through PPP?**

The Railways Convention Committee (2017) had noted that while rail traffic has increased more than 14 times between 1950 and 2014, the track infrastructure has not increased at an equivalent pace. This has been attributed to significant under-investment in the railways.

As per the 2018 Finance Audit report on Indian Railways, non-availability of sufficient funds in Depreciation Reserve Fund to replace the over-aged assets is indicative of weak financial health of the railways. It also recommends that the huge backlog of renewal and replacement of over-aged assets needs to be addressed for safe running of trains.

The report also pointed out that railways need to take measures to improve competitiveness of its services with regard to road and air travel. This is reflected as the total capital grew from Rs 1,83,488 crore as on March 31, 2013 to Rs 3,12,635 crore as on March 31, 2017, but the total traffic handled declined from 7,27,610 million net tonne kilometres to 7,01,813 million net tonne kilometres respectively.

All of these point out to the need of investments in rolling stock and track infrastructure, which in

turn would be instrumental in improving the service delivery by the railways.

According to the 2015 Report of the Committee for Mobilisation of Resources for Major Railway Projects and Restructuring of Railway Ministry and Railway Board, the private sector can bring in technology, capital and productive management practices to help modernise the railways. The report also suggests that private sectors should be involved in procuring rolling stock, keeping in view of the in-house production capacity and demand requirements.

This was preceded by the Sam Pitroda Committee Report 2011 which recommended to attract private investment in various areas of railways such as stations and terminals, high speed rail corridors, elevated rail corridor, private freight terminals, leasing of wagons, loco and coach manufacturing units, etc.

### **Challenges faced by private players in the railway segment**

Investments in railway infrastructure require distinct and predictable rules because of their long-term nature. PPPs particularly have observed delays that exceed more than the accepted time-lags between its inception and

completion. Issues concerning the financial viability of project proposals, institutional stability and procurement activities plague the investment ecosystem. The private sector will not be forthcoming if there are no incentives.

In any PPP initiative, the rules of the game such as shares and investment against the participation of the board and decision-making powers shall play a crucial role when a private party is planning to invest. Will setting an upper limit for the investment and reducing the complexity of the process attract more private players?

A series of measures have to be undertaken to create a favourable environment for private investments. Higher tax relief on investments in government infrastructure projects can promote investments. However, the government has to be cautious with the move if it intends to strictly follow the fiscal consolidation path, and accordingly decide the degree of relief it can provide with the fiscal space available to it.

### **Technological advancement**

The Integrated Coach Factory (ICF) in Chennai has successfully manufactured Train-18 (chair car), which is a semi-high-speed (160 Km/h)

self-propelled train under the Make in India initiative. This cost-efficient train has attracted the interest of South East Asian and South American nations as well. The ICF is also developing Train-19 (with sleeper berths) and Train-20 (with a lightweight aluminium-based body). Producing these to meet the demands will be a major challenge but once it is addressed, it can open an export opportunity for India. The technological advancements made in this sector give a positive message but demand huge capital investment, which will require private participation.

(Research inputs from Nissy Solomon and Jacob Thamarappally contributed to this article).

<https://www.moneycontrol.com/news/india/policy-are-ppps-the-road-ahead-for-indian-railways-4266571.html>

## **India's 1st world-class Habibganj Railway station.**

Jun 21, 2019 | 16:06 IST | ET Now Digital

Habibganj is all set to be Indian Railways' 1st world-class station. The redevelopment work has already begun and it is being reconstructed on the lines of Germany's Heidelberg railway station. It may be noted that railways is planning

to develop the concourse areas into airport-like swanky spaces where passengers can enjoy world-class amenities.



It is to be noted that once the reconstruction work is complete, the Habibganj station will have a glass dome-like structure which will serve as the entrance. The railway station will become a “green building” with LED lighting and the wastewater will be treated as well for reuse.

Just like airports, the new station will have cafeterias and food plaza for the convenience of passengers. Along with a food court, the station



is also proposed to have a plush waiting lounge. Aside from 'holding areas' for passengers at every platform, Railways will also make an exit underpass for passengers de-boarding trains in order to decongest the platforms.

The station is being redeveloped by Indian Railway Stations Development Corporation (IRSDC) along with a private firm, the Bansal Group. It will become the first railway station in the country to be redeveloped under the PPP (Public-Private Partnership) model. The area surrounding the station will also be redeveloped and commercial establishments, a bus terminal, office lobbies and service apartments will be constructed on the western side.

On the eastern side of the station, there will be hotels, hospitals, spas and a convention centre. For the overall revamp of the station, Rs 450 crore is being spent, out of which the cost of station redevelopment is around Rs 100 crore and the cost of commercial development is around Rs 350 crore.

<https://www.timesnownews.com/business-economy/industry/article/beautiful-platform-cover-shelter-coming-up-at-indias-1st-world-class-habibganj-station-see-pics/440955>

## PPPs may help to ensure universal health

Hindustan Times Jun 12, 2019 08:23 IST

**The key to success of this partnership is respect and trust with the goal of providing quality care at affordable cost.**

India takes pride in the fact that it is one of the fastest-growing economies in the world. But our heads will hang in shame if we look at India's health system. There is a shortfall of 20% sub-centres, 22% public health centres and 32% community health centres. The average population served by one public sector allopathic doctor is 11 times higher than the World Health Organization's recommendations. The government spends 1.02% of the GDP on health compared to the global spending of 6%. Clearly, India is struggling to serve its population amid the rising burden of diseases along with poor coverage by public health on the other.

Thanks to such challenges, people are shifting to private medical care which now plays a significant role in providing healthcare. The private sector consists of 58% of all hospitals and 81% of doctors in the country. Similarly, there is dominance of private practitioners for

providing outpatient services. With this preference, for private health care services, the out-of-pocket expenditure (OOP) of the beneficiaries has spiked to more than 60%. The excessive reliance on OOP payments leads to financial barriers for the poorest, thereby perpetuating inequalities in health care. In addition to these challenges, the private sector is poorly regulated when it comes to quality and pricing.

The Ayushman Bharat-Jan Arogya Yojna promises to bridge this gap of cost and access through insurance coverage to 10 crore people. In addition, the programme also promises to establish health and wellness centres. This increases the need for additional investment in health where the public healthcare infrastructure remains inadequate. In such a scenario, it has been proposed by the National Health Policy (2017) to engage the private sector strategically in healthcare-deficit areas.

Setting up a public-private partnership (PPP) in health may build our path towards universal health coverage as shown by various PPP interventions worldwide.

I suggest the following key steps to establish a successful partnership:

### **1. Staunch and well-defined governance:**

An institutional structure should be set up to foster, monitor and evaluate the PPPs. Although a PPP cell has been established to nurture such models for all the sectors, there is not much movement when it comes to the health sector. A dedicated PPP unit for health under the umbrella of PPP cell will help in effective implementation. This needs to be established at the state-level under the leadership of the state health ministry.

### **2. Equitable representation of partners in the institutional framework:**

Institutional structure is a cornerstone for development of a sustainable PPP project. Representatives from both public, private and not-for-profit sector will not only encourage new models, it will also help to meet consensus on shared responsibilities and roles and will facilitate communication among the partners leading to a strong sense of ownership and trust.

### **3. Evidence-based PPP:**

Systematic research initiatives and mechanisms must be established to constantly understand the evolving needs and benefits to end users. An overall community health assessment carried out at the district level in consultation with key stakeholders taking into account the demand of users and all sources of health care service delivery available is vital. The need of the community can be broken down to develop individual PPP projects with equal or extra emphasis on primary health care.

### **4. Regulate user fee:**

One of the hurdles of engaging the private providers for public health service delivery is OOP expenditure. Therefore, it is important to regulate user fees of this sector under partnership. Some commendable approaches have been put forth by West Bengal and Karnataka Medical Establishments Bill of fixing the rates for private healthcare services. A fee capping of services will balance the profit making business and reduce the health related poverty without compromising the quality.

## **5. Effective risk allocation and sharing:**

Risks shall be allocated to the party best able to control and manage them so that value for money is maximised. Because of the risk associated with the partnership the private sector is hesitant. However, the provision of risk sharing will open up the larger window for entry and interest of the private player. Public authority may share the risk by underwriting a minimum level of usage or make payment to the private sector in form of subsidy/reimbursement.

Lastly, the key to success of this partnership is mutual respect and trust with a common goal of providing quality care for all ages at affordable cost. This meaningful engagement may be the next game changer in healthcare for the country.

Sunil Mehra is executive director, MAMTA Health Institute for Mother and Child

<https://www.hindustantimes.com/analysis/ppps-may-help-to-ensure-universal-health-coverage/story-Md3QwHRpZNxDG4EEk2kNPL.html>

## PPP Model a New Hope in Rural Healthcare

May 4, 2019

India's first successful experiment on Public-private Partnership (PPP) model in rural healthcare took shape on the aftermath of the devastating earthquake in Bhuj, Gujarat. What began as a challenging endeavour has now taken shape of a state-of-the-art hospital that caters to more than 1000 patients a day.

It was year 2009 when the Gujarat Adani Institute of Medical Sciences (GAIMS) and the G K General Hospital in Bhuj were brought into PPP model. GAIMS is a teaching hospital and the latter is a 750-bed multi-specialty hospital. Many corporate houses that were approached earlier by the government backed off at later stages citing lack of feasibility. Finally Adani Group, through its CSR arm Adani Foundation, joined hands with the Govt. of Gujarat and thus a new chapter in rural healthcare began.

The hospital has just been adjudged the second best civil hospital for its performance in the Ayushman Bharat Yojana.

One lesson learnt was that it will take long-term commitment, patience and sizeable investment for the partner to write a success story. Adani Foundation has so far invested around Rs. 100 crore in upgrading the infrastructure and developing top-line human resources among other things. A decade since then the cumulative operating deficit stands at Rs. 25 crores.

Over the years this successful PPP model in Kutch, India's largest district, has led to create confidence in planning six brownfield self-financed medical colleges in Tapi, Dahod, Panchmahal, Banaskantha, Bharuch and Amreli districts by upgrading the government hospitals through PPP.

In October 2018, the NITI Aayog has accepted the merits of the model and invited private players to partner with government hospitals at the district levels across India. The central government has laid down guidelines for involving private sector in the healthcare area right at district levels through the Public Private Partnership (PPP) models.

Health is a state subject and each state can opt for a model of its choice proposed by the NITI Aayog with technical assistance from the World Bank. The four PPP models are Management of Contract, Purchasing of Services; Build,



## Operate and Transfer Model and a Co-location Model.

Broadly, four parameters make the PPP model in healthcare successful on the long term. It has to be affordable, cost-efficient, timely and feasible to all stakeholders. The World Bank, the World Economic Forum, many policymakers and think-tanks have also vouched for such an ideal approach.

Usually, governments across the globe have engaged the private sector in achieving six major objectives through PPP model. These are the areas of financing or co-financing of the project, designing of the infrastructure and care delivery model; in construction or renovation of facilities included in the project, maintenance of the facilities and the equipment, operating or supply of applicable equipment and delivery of nonclinical services, and lastly, in delivery and management of specified clinical and clinical support services.

Encouraged by the growing feasibility in India, the Govt. of Odisha has recently announced what would probably be the largest ever PPP programme in healthcare. Across the state 25 hospitals are planned to be developed. Each will be between 100 and 200 bed Greenfield hospital.

G K General Hospital is the only referral hospital in Kutch, India's largest district, and often considered the last resort by patients arriving from the farthest corner. Moreover, the expanse of Kutch district increases travel time for patients and thereby adversely impact the chances of recovery/survival. Further several cases referred to the hospital comprise terminally ill patients comprising critical infants and elderly patients. From Outdoor Patient Wards to the Operation Theatres and Labour Rooms to Intensive Care Units every critical aspect of the hospital infrastructure grew manifolds.

Looking ahead, the Indian healthcare scenes will go through a tremendous change revolving around the PPP model. With increasing demand for affordable, efficient and quality healthcare both in urban as well as rural areas, this area will evolve for the better, for sure.





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