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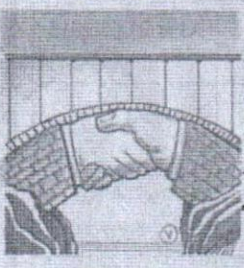
How to Salvage PPP In Infrastructure

Public-private-partnerships (PPPs), once supposed to be the silver bullet to solve India's infrastructure woes, have largely turned out to be blanks. The government wants to change that, after a committee headed by technocrat Vijay Kelkar tells it how to do so. Some problems like government clearances are common to all, but each sector has its own risks. The main bottleneck for electricity, where plenty of generating capacity has been added but little sold, is the unwillingness of state governments to charge consumers rational tariffs. This problem has no quick fixes, apart from the hope that states begin to compete among themselves for investment and wake up to distribution reform.



Many road and highway projects are sputtering. Here, problems vary: contracts are poorly drafted, land acquisition fails, litigation leads to delays. State owned banks are weighed down by bad loans made to infrastructure. As delays increase, bad loans turn worse. Are obituaries in order for PPPs? Not quite. The state should undertake the riskier initial stages of project implementation, facilitating clearances and slashing the risk premium in project financing costs. This effort, along with the land acquired for the project, can reflect as the state's equity in the project. Private partners can be chosen based on the lowest annuity demanded or highest revenue share offered.

Things could improve if New Delhi, the states and private players become equity holders in PPPs. Ownership could bring urgency to slow-moving administrations. Private players who build infrastructure bear operation and maintenance costs, which must be factored into financial bids for annuity, tolls or revenue shares submitted. Sound finances and a stakeholder culture can be the bedrock of infrastructure projects.