

“Augmenting Public Private Partnership (PPP) in Infrastructure Projects through Project Management and Accountable Governance in India”

Author

Prasanna B Babli

Essar Projects (India) Ltd.



CONTENTS

Abstract	i
Introduction	1
Status of PPP Projects in India	1
Proposals to counter delay in completion of Infrastructure Project	3
Planning Commission's take	4
Case study and Key Challenges	
1. Mundra UMPP Project	5
2. Bhiwandi Electricity Distribution Franchisee	
Structuring framework for Accountable Governance	7
Concluding Observations	9
References	10

LIST OF FIGURES AND CHARTS

Figure 1: Status of PPP projects in India	1
Figure 1: Investment Sector-wise for projects in the implementation stage	2
Figure 2: Comparison of no. of projects in pipeline to their investment in various states under PPP	2
Figure 3: No. of projects completed under PPP in different sectors	2
Figure 4: Case in discussion (Bhiwandi Electricity Distribution Franchisee)	6
Table 1: Scheduled COD for Mundra UMPP project.	5
Chart 1: Structuring Framework for Accountable Governance	7

“Augmenting Public Private Partnership (PPP) in Infrastructure Projects through Project Management and Accountable Governance in India”

Author:- Prasanna B Babli

Essar Projects (I) Ltd.

ABSTRACT

India is only second among the emerging economies next to China. With an average GDP rate of 7.5% and upside, the demand to improvise infrastructure is magnanimous. The average spending capacity proportional to the earning power has also drastically increased. Emphasis to improve the infrastructure is evident from the 11th five year plan. The planning commission is slated to increase the investment in up-gradation and capacity enhancement to the tune of almost 5-6% of the GDP.

However, more than 60% of economically viable projects have had a breach in terms of successful completion with regards to time, cost, quality and value addition. In order to bridge this gap between feasibility and viability, better project management techniques combined with accountability for delays must be incorporated.

The objective of augmenting PPP in infrastructure is the road ahead, for better management practices is the need of hour. Issues arising due to land acquisition, environmental clearances, political influence, socio-cultural imbalance, improper risk mitigation and the adverse effect of unskilled workforce accumulate towards cost and time overruns.

Concluding observations tend to reflect the necessity of using Project Management skills in order to have clear perspective of the achievable and its contrary. The paper focuses upon constitution of a accountable governing body comprising the public as well as private participants. A single window clearing body for assessing the challenges in projects; incorporating initiatives for CSR, encouraging FDI and JV and proper risk mitigation tools.

Keywords:- Project Management, PPP Projects, Accountable Governance

1.0 INTRODUCTION

The construction industry in India is arising to the huge demand it is entrusted with. Gone are the days when basic infrastructure was talk of town. Today large scale projects of huge capital investment can be witnessed. The rate of return is also better compared a couple of decades ago. This has lead to the need for Private Sector Participation in the building of India Vision 2020. It is envisaged in the 12th Five year plan that the percentage of Private sector investment will increase to almost 40% of the total infrastructure need in India. With large private organizations making their mark in the infrastructure space, immediate reforms need to be addressed regarding the successful closure of projects.

Of the 559 Central Sector Projects of more than Rs. 150 Cr. Almost 53% i.e 293 projects are delayed by up-to 36 months. Only 21% of the projects are on schedule and 2% of them ahead of schedule. Another 24% projects do not have any status as on October 2010. (Reports IANS 17 April 2011 'More than 50% of centrally funded infrastructure projects are delayed')

Is it alarming enough to implement better Project Management Practices with an Accountable Governance? Is there a requirement to have a central governing body for efficient monitoring of projects? Does the body suffice the need of conceptualization and initiation bottlenecks?

The subject is of considerable debate and there have been a lot of proposals. However, most of these proposals have failed to witness light at the end of tunnel.

2.0 STATUS OF PPP PROJECTS IN INDIA AS PER LATEST DATA AVAILABLE

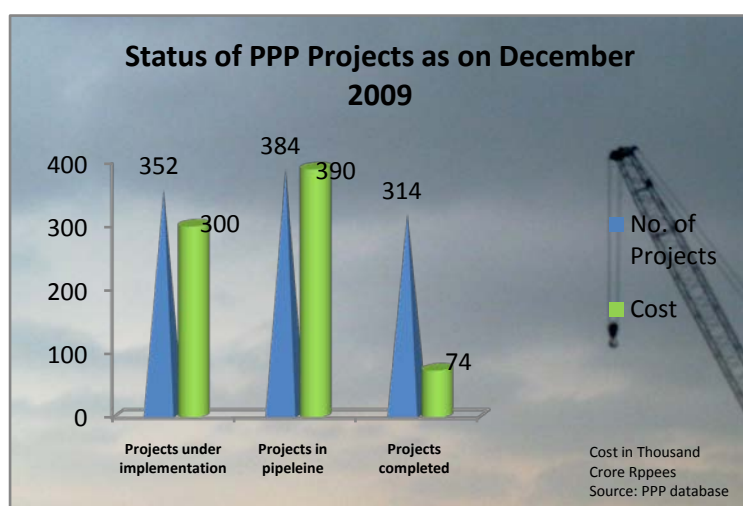


Figure 1 : Status of PPP Projects in India

Implementation) under the Infrastructure Statistics 2010 for central sector projects of cost more than Rs. 100 Cr.(First issue, December 2010) indicates a little over 43% of projects been delayed and nearly 27% of projects were sanctioned without a commissioning date or a fixed completion date.

The no. of projects under implementation compared to that of the completed is alarming. Statistics from PPP database indicate that almost an equal amount of investment as that of no. of projects can be witnessed for projects in implementation and under pipeline stage.

However, of the 515 projects monitored by MOSPI (Ministry of Statistics and Program

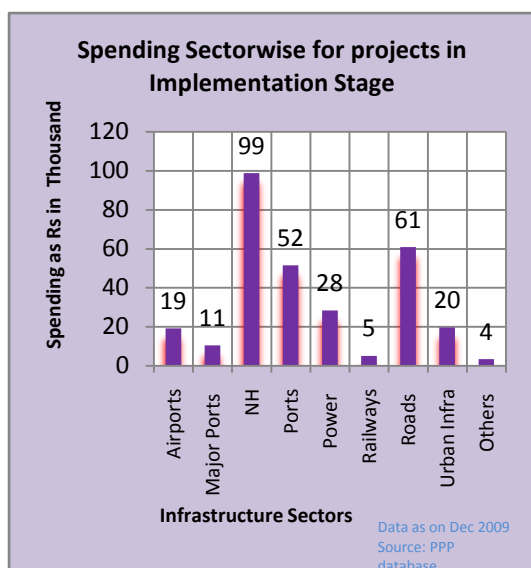


Figure 2: Investment Sector-wise for projects in the implementation stage.

Many JV companies are being setup to capitalise on the 100% FDI been made available in many infrastructure sectors. However, initiatives regarding the issues need to be addressed.

Projects under National Highway Development Program (NHDP) have had a significant role in the implementation of PPP projects. 357 NH projects have been awarded on MCA (Model Concession Agreement) either on BOT or Annuity basis. Similar trends can be witnessed in the ports and telecom sectors. The most important detriment has been land acquisition and many projects are in the loop for lack of policy and regulation regarding the same. Eventough the ambitious plan to achieve 20 km road per day has hit a deadend, the roads sector is witnessing a robust growth perspective.

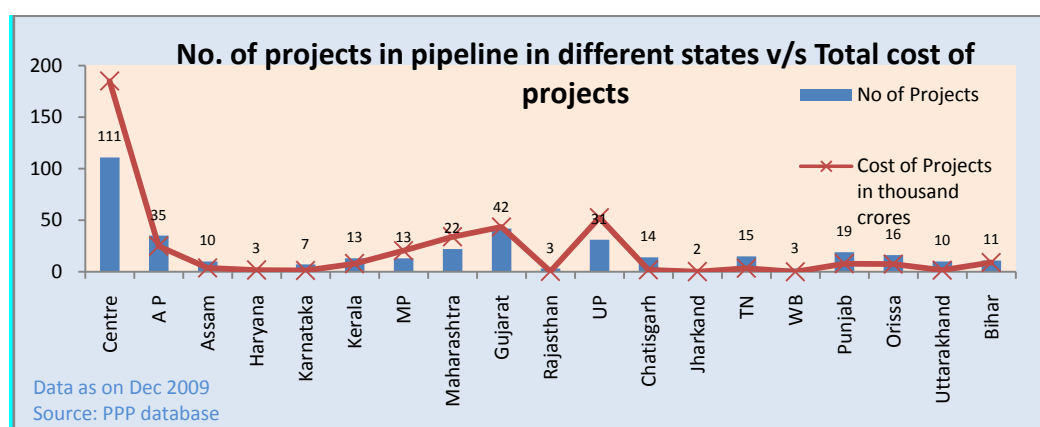


Figure 3: Comparison of no. of projects in pipeline to their investment in various states under PPP.

PPP projects in the pipeline are mainly concentrated under the centre's preview. It is necessary to have a central governing authority with Project Management tools in place for efficient working of the project.

Purchasing of coal, lack of experience are some critical factors affecting the growth of private participation in the power and railways.

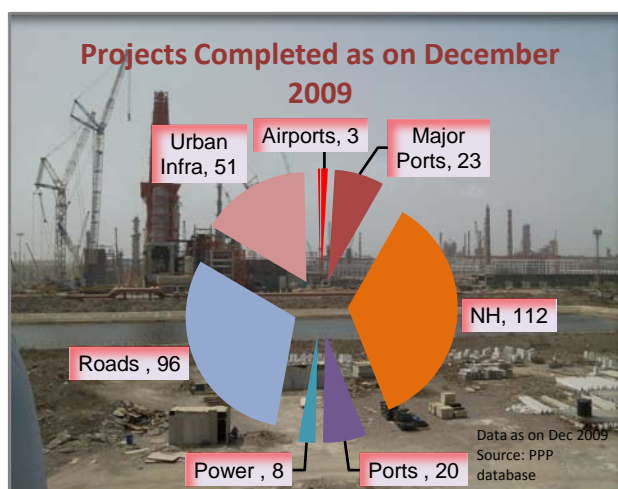


Figure 4: No. of projects completed under PPP in different sectors.

3.0 RECENT PROPOSALS TO COUNTER DELAY IN PROJECTS

3.1 'Urban projects can get states grant if completed in time' Business Standard – 2 June '11

A recent article upon grants offered to infrastructure companies in order to speed up the works indicates that the states are willing to offer more to get things done. The findings of report suggest that the cost escalation due to delay in projects is almost 16% which means that for every 1 lakh Crore rupees of investment there is a risk in cost overrun of 16000 Crore Rupees. Urban projects may get the node of benefitting from completing the project ahead or within the schedule. But the concern persisting Infrastructure development companies is the availability of guidelines to achieve the same. Transparency and policy initiatives need to be improvised so as to cash on the benefits been made available.

3.2 KPMG-PMI Study Reveals Key Drivers for Success in Infrastructure Projects

Inadequate Designs and Planning coupled with Scope Creep and Material Cost Escalations identified as biggest reasons for Schedule and Budget over runs. Due to constant changes in the designs there is a high probability of an budget overrun. The study identified progress reports as most frequently used tool for project monitoring. Hence it suggests the constitution of Project Management Office (PMO) as Central Regulatory Authority to monitor execution of Infrastructure Projects. Evaluation of the project progress in terms of Value for Money through PMO will result in better performance management. The study says that 85% of all ongoing projects running within budgets have a PMO.

3.3 Central Sector Projects Co-ordination Committee (CSPCC) for monitoring projects > 150 Cr.

The committee could meet once a quarter, with the agenda to sort out bottlenecks in timely implementation of central sector projects. This would be a major step towards mitigating the time overruns in central projects and give a fillip to economic growth in the country. The CSPCC will be under the purview of the state government looking into central sector projects of cost greater than Rs. 150 Cr. It is pertinent to mention here that the state governments are very important stakeholders in the whole infrastructure building process and they would be equally interested in seeing that the benefits of the infrastructure projects reach people at the earliest.

Proposals to set up governing authorities and monitoring committees have however not yet been implemented. Much of this can be attributed to the fact that India is a vast democracy with regulatory authorities thriving in each and every step of the project process. Getting approvals and recommendations from different agencies becomes cumbersome. Eventually leading to the delay in project progress and cost overruns.

4.0 PLANNING COMMISSION'S TAKE

“When it comes to collaborative partnerships, in particular PPP, for provisioning essential services, the interests of target beneficiaries are often neglected.” – **Krishna Tanuku**, Executive Director, Wadhvani Centre for Entrepreneurship Development – ISB. **For a article published ‘Empowering Inclusive Growth: Entrepreneurship’ in Business Standard India 2011.**

4.1 “Guidelines for monitoring of PPP projects Published by Secretariat for Committee on Infrastructure”

In order to monitor the performance of PPP projects, the project authorities may create a two tier mechanism;

- ✓ **Public Private Partnership Project Management Unit (PPP PMU) – at the project authority level**
- ✓ **Public Private Partnership Performance Review Unit (PPP PRU) – at the ministry or state government level**

PPP PMU submits a project monitoring report to the PPP PRU within 15 days of the closure of relevant month. The PPP PRU should review the Performance Monitoring report submitted by PPP PMU and take necessary steps in order to compensate for any losses or lapses. In addition the PPP PRU should generate a quarterly report upon the status of such PPP project demanding for any remedial measures known as the **Exception Report**.

4.2 Approach to regulation of infrastructure

The secretariat for the Committee on Infrastructure

Independent regulatory institutions should embrace a transparent and participatory process which allows all stakeholders, including consumer groups and citizens to interact with these institutions in a predictable and consistent fashion. The regulator should adopt a regulatory process that ensures avenues for participation by stakeholders.

4.2.1 Accountability of Regulator

The overall functioning of the regulator should be subjected to scrutiny of the parliament. The annual expenditure of the regulator must be audited by the Comptroller and Auditor General (CAG) and its report should be laid before the parliament.

4.3 “A process for developing good policies”

Effective strategies for the development of Indian industries and Indian innovations can only be produced through an effective dialogue between industry and policy-makers. The author emphasizes on improving the quality of interaction between the government and industry. In the absence of well ordered and transparent process for consultation, lead to ‘crony capitalism’ eventually affecting India’s progress.

In an article ‘Rethinking India’s Industrial and Innovation Strategies’ Arun Maira, member Planning Commission India. Business Standard India 2011.

5.0 CASE IN DISCUSSION

5.1 Mundra Ultra Mega Power Plant 4000MW (800X5)

Contractor: Tata Power Ltd.

SPV: Coastal Gujarat Power Ltd (CGPL)

Ultra Mega Power Plants are the power plants envisaged to accomplish 100000 MW of power in India by the year 2012. However, the milestone to achieve this ambitious target seems to be varying and needs a bit of buckling up. This project is of special interest as it is the first UMPP which will be commissioned as per scheduled dates. The first phase of which is scheduled to be commissioned September 2011 and therein the next 4 phases of 800 MW each in 6 month's intervals.

Unit No	Months from PPA signing	Scheduled COD as worked out based on date of signing PPA
1	64	22.08.2012
2	70	22.02.2013
3	76	22.08.2013
4	82	22.02.2014
5	88	22.08.2014

Table 1: Scheduled COD for Mundra UMPP project.

The project is expected to be completed within schedule as per estimates; the commissioning of all the phases will take around 82 months. The initiation of project beholds key aspects pertaining to environmental clearances. Clear environmental and social impacts were conducted and clearance from MoEF was obtained on the basis of rapid environment impact assessment.

The project has a joint monitoring committee of the public and private stakeholders. The fact can be substantiated by the early commissioning of phase 1 which in itself is an achievement for the project. However, the project runs the risk of coal import budget overrun. The coal exporting countries such as Indonesia, Australia have reformed their export policies, which now caters to global prices. This means that the coal import for UMPP projects is affected thereby leading to questions of viability.

Accountability of mega investment projects need to be considered as a evaluation criteria during the feasibility stage itself. Clearly defined roles are to be chalked out and measures for the smooth execution of project need to be undertaken. Examples such as the Mundra UMPP project sets the tone for other projects, proper environmental assessment along with environment management plan makes the project all the more viable.

5.2 Bhiwandi Electricity Distribution Franchisee

Client : Maharashtra State Electricity Distribution Company Limited (MSEDCL)

Contractor: Torrent Power AEC Ltd (TPAL)

The PPP structure for project is Distribution Franchisee Agreement (DFA) and is valid for a initial period of 10 years in the Bhiwandi Circle.

The most important aspect of this project is that the risk sharing mechanism is distributed among the client and contracting company in terms of tariff risks and procurement risks. Thus off-loading a lot of burden on the contracting company.

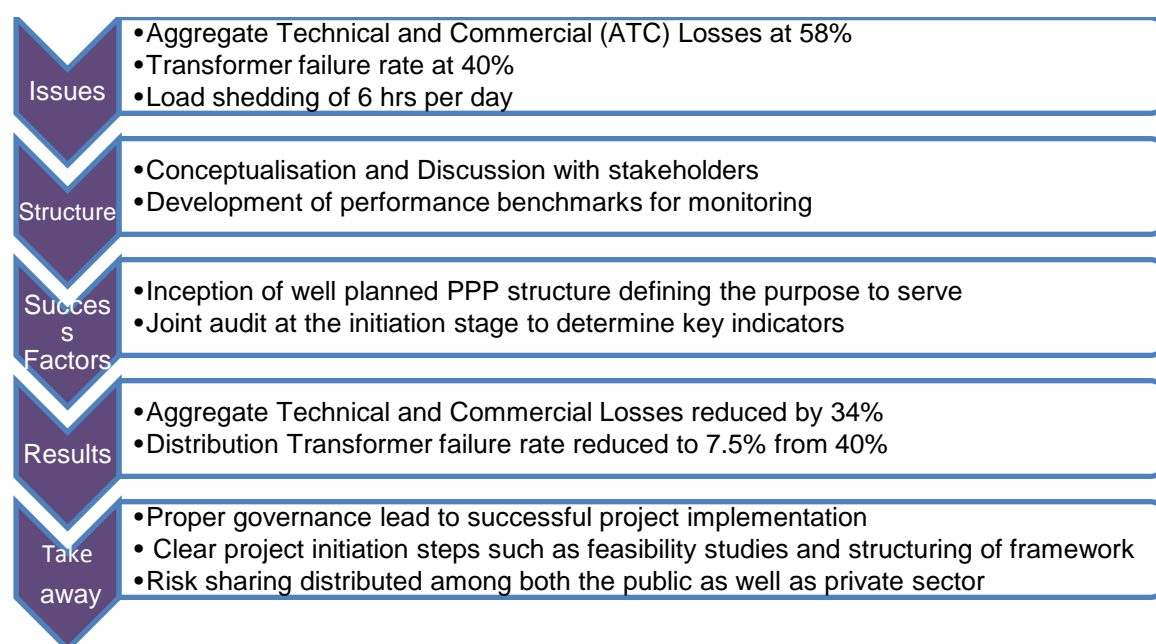


Figure 5: Case in discussion (Bhiwandi Electricity Distribution Franchisee)

5.3 Key Issues – Need of hour

The various issues have had an impacting effect on the progress of project, most commonly anticipated issue is land acquisition. The government is yet to finalize a draft bill regarding the policy framework for land acquisition. More than 50% projects are plagued by delays due to issues relating to land acquisition and environmental clearances. To add to the concern, proper Project Management tools and techniques is yet to reach the Indian Infrastructure Industry.

The construction industry remains an highly unorganized sector and a lot of homework needs to be achieved in terms of development of skilled manpower and better management principles. As new technologies are being incorporated, new Project Management techniques combined with knowledge updating of Management and its benefits need to be transferred to the middle and bottom level management.

6.0 STRUCTURING FRAMEWORK FOR ACCOUNTABLE GOVERNANCE

Constitution of accountability in every phase of the project development will lead to project completion date. Broadly the phases of a project development can be divided as;

- ✓ Conceptualization and Preliminary study
- ✓ Detailed study of scope and risks involved
- ✓ Project implementation and monitoring
- ✓ Project handover and maintenance

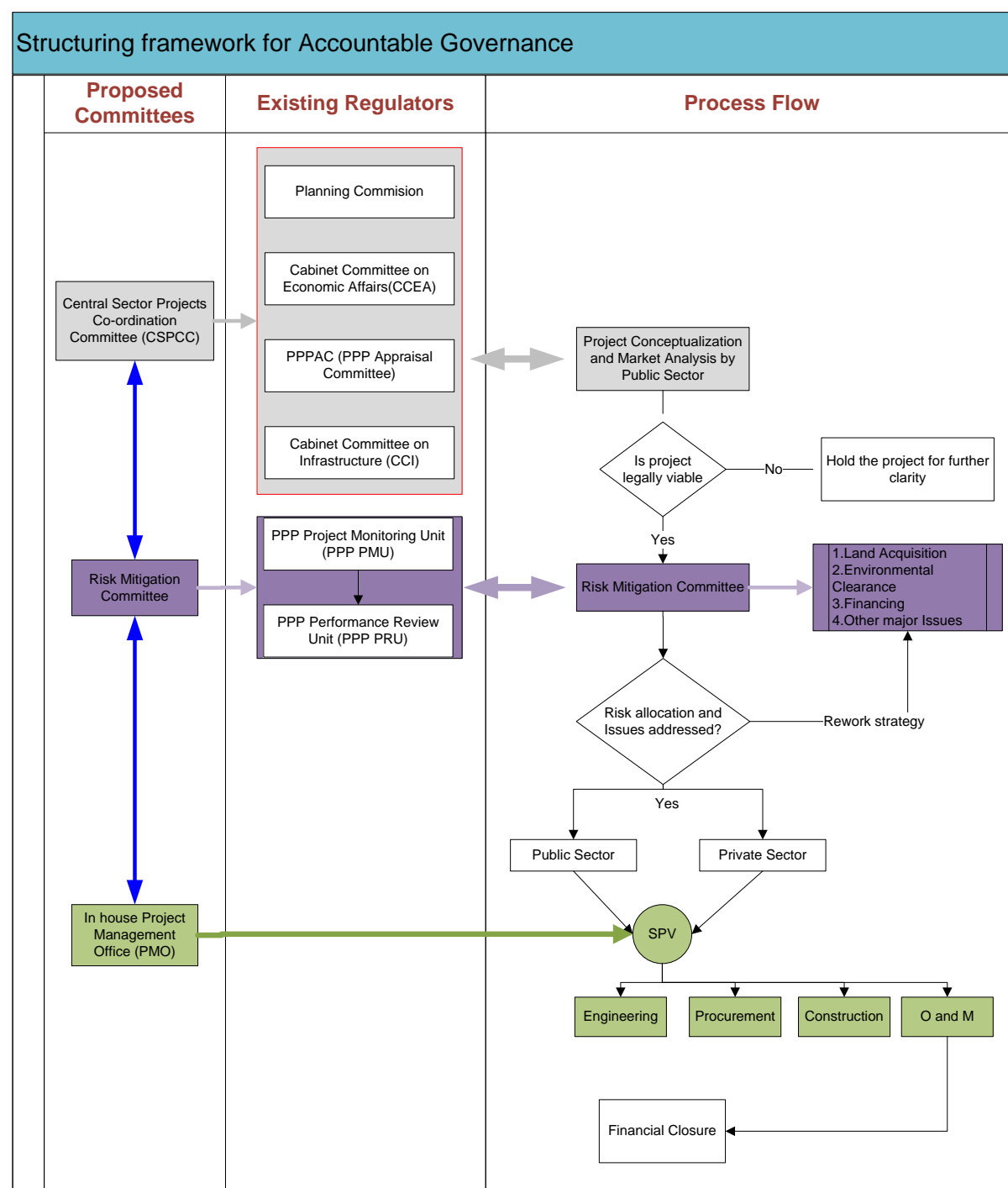


Chart 1: Structuring Framework for Accountable Governance

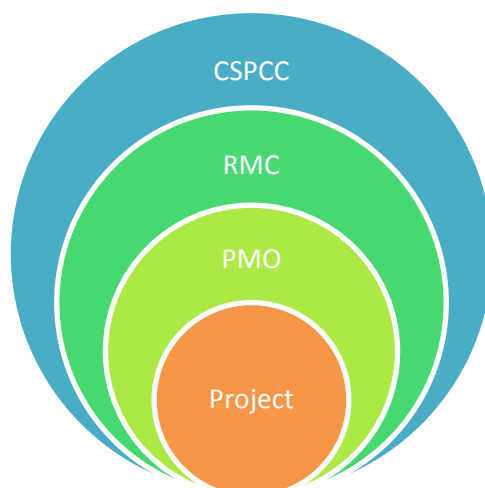
The governing bodies which can be entrusted as the principle accountable committees or sub-committees are;

- ✓ **Central Sector Projects Coordination Committee (CSPCC)**
- ✓ **Risk Mitigation Committee (RMC)**
- ✓ **Project Management Office (PMO)**

Inception of a risk mitigation committee can solve the issues relating to key challenges as discussed earlier in the paper. By doing so, a project will have a three layer committee which will be held responsible for any delays arising out of the project. This will ensure that there are committees working towards getting the work done and thereby making the implementation of project smooth without any gridlocks.

The CSPCC will be responsible for coordinating with the government authorities and working towards the legalities of the project. Having been made clear market analysis, the scope and duration of the project are to be finalized before calling for RFQ. The CSPCC continuously give inputs regarding potential bottlenecks that can be encountered during the project implementation and thus entrusts the Risk mitigation Committee (RMS) to prepare a detailed risk sharing matrix along with potential solutions to the problems envisaged. This committee will help in making understand the issues at the grass root level and coordinate in reaching a consensus on the above said issues.

Having carried out the initial debottlenecking procedures in the inception and feasibility study stage, the PMO will be operating upon the actual work done or completed. Thus PMO can take decisions regarding key parameters such as manpower, machinery, material and money on a regular basis as there is better clarity regarding the status and knowledge as to where the project is leading to. In addition, the PMO will be coordinating with both the CSPCC and RMC regarding any issues arising out of the project.



7.0 CONCLUDING OBSERVATIONS

Observations are broadly classified under as:

7.1 OECD principles for corporate governance

It is not just the prerogative of the public sector to have proper governance but also that of the private sector.

- ✓ Ensuring the basis for an effective corporate governance framework
- ✓ The rights of shareholders and key ownership functions
- ✓ Equitable treatment of shareholders
- ✓ Disclosure and Transparency
- ✓ Responsibilities of the board

7.2 Sustainable governance along with sustainable development

- ✓ A lot of talk regarding sustainable development but miniscule approach towards having sustainable governance.
- ✓ Constitution of governing and regulatory bodies regardless of the power in the parliamentary house.
- ✓ Accountability of regulators in every stage of project leads to a more vigilant and responsible undertaking of entrusted job.

7.3 Dividends and not delays for financing institutions

- ✓ At the end of day, it is the financier who takes the piece of cake; give the financier what is required. Belief of generating revenue from invested money and not expenditure.
- ✓ Today a lot of financial institutions are skeptic of lending due to the relatively long construction project cycle.
- ✓ Bring in mechanisms that promote investments into such sector rather than being felt detrimental to the growth of lenders.

7.4 Road ahead for Private Participation in Infrastructure projects

- ✓ Investment to the tune of almost Rs. 40 trillion expected for infrastructure development in 12th five year plan.
- ✓ Huge demand along with rapid reforms in governance set to infuse trust in Public sector.
- ✓ Accountability by means of Project management to be emphasized in order to achieve financial closures.
- ✓ Shareholder status in projects for the affected citizens will imbibe a sense of ownership among the land donor and does not hurt the emotional quotient.

8.0 REFERENCES

8.1 Business Standard India 2011 – BS Books An Imprint of Business Standard Ltd

8.2 Web Directory

Government Institutes	Foreign Organizations	Government ministries
Committee on Economic Affairs (CEA)	World Bank	Ministry of Statistics and Program Implementation (MOSPI)
PPP Database, PPP India	Asian Development Bank (ADB)	Ministry of Finance
Public Private Partnership Appraisal Committee (PPPAC)	International Finance Corporation (IFC)	Ministry of Shipping
India Infrastructure Finance Corporation Ltd (IIFCL)	Organization for Economic Co-operation and Development (OECD)	Ministry of Civil Aviation
Confederation of Indian Industries (CII)	Public Private Infrastructure Advisory Facility (PPIAF)	Ministry of Railways
Department for Industrial Policy and Promotion (DIPP)	Ip3 Institute for PPP development	Ministry of Power
Infrastructure Development Finance Corporation (IDFC)	KPMG	Ministry of Road, Transport and Highways (MORTH)
Indian Brand Equity Foundation (IBEF)	Mckinsey Consultants	Committee on Infrastructure

AUTHOR'S PROFILE

The author is a Civil Engineer and a PG in Advanced Construction Management from National Institute of Construction Management And Research (NICMAR) Pune.



Presently serving as Deputy Manager in **Essar Projects (I) Ltd.** Under Project Leadership and Development Program (PLDP). The author has previously worked upon Papers “**To analyze the issues in implementing Public Private Partnership (PPP) in various Infrastructure Projects in India**” and “**Evaluating the Efficacy of Delhi Mumbai Industrial Corridor (DMIC) and the Scope for Private Sector Investors**”.

Postal Address: Flat No.202, “Enarch Harmony” Apartment, HSR Layout Extension, Somasundarpalya, Bangalore-560034Karnataka.

Organisation: Essar Projects (I) Ltd.

e-mail: prasanb09@gmail.com; pbabli@essar.com

Mobile: 917381050225, 919449329902