Build - Operate - Transfer Model

For Prelims: Models of Investment, NHAI, Public Private Partnership

For Mains: Different models on investment, Significance and challenges in Public Private Partnership, Role of models of investment in building infrastructure

Why in News?

National Highway Authority of India (NHAI) plans to offer at least two highway upgradation projects to private players using the **build-operate-transfer (BOT)** model under **Public-Private Partnership,** during the third quarter of 2022.

What do we know about the Build-Operate-Transfer (BOT) Model?

- **About:**
  - Under the BOT model, a **private player is granted a concession** to finance, build and operate a project for a **specified period of time** (20 or 30 year concession period), with the **developer recouping the investments by way of user charges or tolls charged** from customers using the facility, and thereby taking on a certain amount of financial risk.
  - It is a conventional **Public-Private Partnership** model in which a private partner is responsible to **design, build, operate** (during the contracted period) and **transfer back** the facility to the public sector.
    - Private sector partner has to **bring the finance for the project and take the responsibility** to construct and maintain it.
  - The government has decided to assess the revenue potential of a project **every five years during the concession period as against every 10 years earlier.**
    - This would mean that the concession period (or period till which road developers can collect toll) is extended early in the tenure of the contract, **ensuring surety of revenue for the private company.**
- **Working Process:**
  - **Build:**
    - A private company (or consortium) **agrees with a government to invest in a public infrastructure project.** The company then secures their own financing to construct the project.
  - **Operate:**
    - The private developer then **operates, maintains, and manages** the facility for an agreed concession period and recoups their investment through charges or tolls.
  - **Transfer:**
    - After the concessionary period the **company transfers ownership** and operation of the facility to the government or relevant state authority.

What are the Advantages & Challenges in BoT Model?

- **Advantages:**

    - The Government gets the benefit of the **private sector to mobilize finance** and to use the **best management skills** in the construction, operation and maintenance of the project.
    - The private participation also ensures **efficiency and quality by using the best equipment.**
    - BOT provides a mechanism and incentives for enterprises to **improve efficiency through performance-based contracts and output-oriented targets.**
    - The projects are **conducted in a fully competitive bidding situation and are thus completed at the lowest possible cost.**
    - The risks of the project are **shared by the private sector.**
- **Challenges:**
    - There is a **profit element in the equity portion of the financing,** which is **higher** than the debt cost. This is the price paid for passing the risk to the private sector.
    - It may take a **long time and considerable up front expenses to prepare and close a BOT financing deal** as it involves multiple entities and requires a relatively complicated legal and institutional framework. There the BOT may not be suitable for small projects.
    - It may take time to **develop the necessary institutional capacity to ensure that the full benefits of BOT are realized**, such as **development and enforcement of transparent and fair bidding and evaluation** procedures and the resolution of potential disputes during implementation.

What do we mean by Public-Private Partnership?

- **About:**
    - PPP is an **arrangement between government and private sector** for the provision of **public assets and/or public services.**
    - Public-private partnerships allow **large-scale government projects,** such as roads, bridges, or hospitals, to be completed with private funding.
    - In this type of partnership, **investments are undertaken by the private sector entity,** for a specified period of time.
    - These partnerships **work well when private sector technology and innovation combine with public sector incentives** to complete work on time and within budget.
    - As PPP involves **full retention of responsibility by the government for providing the services,** it doesn't amount to privatization.
    - There is a well defined **allocation of risk between the private sector and the public entity.**
- **Challenges:**
    - PPP projects have been **stuck in issues such as disputes in existing contracts, non-availability of capital and regulatory hurdles** related to the acquisition of land.
    - Metro projects become sites of **crony capitalism** and a means for **accumulating land by private companies.**
    - Loans for infrastructure projects are believed to comprise a large share of the **non-performing asset** portfolio of public sector banks in India.
    - PPP firms use **every opportunity for renegotiating contracts** by citing reasons like lower revenue or rise in costs which becomes a norm in India.
    - Frequent renegotiations also resulted in the **drain of a larger share of public resources.**

What are some other Models of PPP?	
Engineering, Procurement, and Construction (EPC)	▪ Under this model, the cost is completely borne by the government. Government invit the private players. Procurement of raw material and construction costs are met by t
Hybrid Annuity Model (HAM)	▪ In India, the new HAM is a mix of BOT-Annuity and EPC models. As per the design, the the project cost in the first five years through annual payments (annuity). The remain

	of the assets created and the performance of the developer.
Build-Own-Operate (BOO)	▪ In this model ownership of the newly built facility will rest with the private party. ▪ On mutually agreed terms and conditions, public sector partner agrees to 'purchase' the project.
Build-Own-Operate-Transfer (BOOT)	▪ In this variant of BOT, after the negotiated period of time, the project is transferred to operator. ▪ BOOT model is used for the development of highways and ports.
Build-Own-Lease-Transfer (BOLT)	▪ In this approach, the government gives a concession to a private entity to build a faci own the facility, lease the facility to the public sector and then at the end of the lease facility to the government.
Design-Build-Finance-Operate (DBFO)	▪ In this model, the entire responsibility for the design, construction, finance, and opera concession lies with the private party.
Lease-Develop-Operate (LDO)	▪ In this type of investment model either the government or the public sector entity ret infrastructure facility and receives payments in terms of a lease agreement with the in the development of airport facilities.

Source: IE