ECONOMICS, BANKING, AND PUBLIC POLICY

The Impact of Crony Capitalism on the Dynamics of Public-Private Partnerships

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Abstract

This article examines the relationship between crony capitalism and Public–Private Partnerships (PPPs), which are intended to integrate private-sector efficiency with public welfare objectives. While capitalism is premised on free markets and fair competition, crony capitalism operates through collusive relationships between political elites and business interests. Focusing on the Indian context, the study analyzes how crony capitalism influences PPP project awards, contract design, regulatory capture, transparency, and renegotiation processes. Drawing on case studies, the article demonstrates how such practices distort PPP outcomes, undermine public trust, and hinder equitable development.

Keywords: Crony Capitalism, Public-Private Partnerships, Transparency, Accountability, Corruption.

Crony Capitalism and Public–Private Partnerships

Crony capitalism has emerged as an important concern in policy analysis and interdisciplinary scholarship, including economics, political science, sociology, ethics, and public administration (Dragos & Tarko, 2014; Khatri, 2016). While capitalism is normatively associated with competition and merit-based enterprise, crony capitalism represents a structural deviation in which firm performance depends on political connections rather than market efficiency (Holcombe, 2013). It reflects a nexus among political actors, bureaucrats, and business elites that enables preferential treatment and regulatory capture, thereby undermining transparency, fair competition, and public welfare.

Although closely related, cronyism and corruption are analytically distinct. Cronyism is rooted in relational exchanges, trust, and reciprocal expectations rather than explicit quid pro quo transactions or fixed timelines for returns (Khatri et al., 2006). While not necessarily illegal, cronyistic practices can escalate costs, foster inefficiency, and weaken institutional capacity (Enderwick, 2005). Empirical studies further suggest that practices commonly labeled as corruption may, in fact, reflect relational forms of cronyism embedded within collaborative networks (Krug & Hendrischke, 2003; Roberts, 2010), with both phenomena undermining institutional integrity and public trust (Laver, 2014).

The intersection of crony capitalism and Public-Private Partnerships (PPPs) remains underexplored. This gap is significant given that PPPs involve long-term collaboration between public authorities and private firms for infrastructure and service delivery. Certain structural features of PPPs–particularly long contract duration, financial and institutional complexity, flexibility in contract terms, and the prevalence of renegotiation–heighten their vulnerability to cronyism and corruption (Avello, 2020). In weak institutional contexts, these features may facilitate elite capture rather than efficiency gains (Klitgaard, 2012; Ecenbarger, 2012).

Prolonged contractual arrangements expose PPPs to opportunistic renegotiations, a frequent occurrence that amplifies governance risks and weakens accountability (Andrés et al., 2008). Similarly, complex procurement and implementation processes create multiple entry points for undue influence across project appraisal, tendering, and execution stages (Iossa & Martimort, 2014). As a result, PPP agreements may be structured or modified to favor politically connected firms, raising concerns over service quality, value for money, and public accountability (Sabry, 2015). Ultimately, the entrenchment of crony capitalism

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within PPPs increases public costs, weakens service delivery, and erodes public trust (Iossa & Martimort, 2013; Takano, 2017).

II. Methodology

The methodology for this study involved a combination of qualitative and desk research approaches. A comprehensive exploration and analysis of the concept of crony capitalism in the context of PPPs, drawing insights from a wide range of sources including policy analysis, scholarly research, economic literature, and case studies. The methodology involves reviewing existing literature and academic research from various disciplines such as economics, political science, sociology, and ethics to understand the intricate relationship between crony capitalism and PPPs, as well as its impact on transparency, accountability, and other aspects. The data were collected from various sources, including journals, books, contractual agreements, project reports, audit reports, government publications, websites, and academic databases. The data were analyzed using qualitative research techniques. To enhance the depth of understanding regarding the intricate relationship between crony capitalism and PPPs, a qualitative case study approach was adopted. This involved examining multiple illustrative cases of PPP projects in India to identify patterns, commonalities, and governance failures across them.

III. Results and Discussion

Drawing on a qualitative examination of PPP projects in India, this section discusses how crony capitalism manifests across critical stages of PPP design and implementation. The discussion identifies recurring patterns through which political connections and elite influence distort project awards, contract structures, regulatory oversight, transparency, and renegotiation processes. These dimensions are analytically distinct yet institutionally interconnected, collectively shaping governance failures within PPP frameworks.

A. Awarding of PPP Projects

The project award phase is central to PPP governance, as it determines the selection of private partners entrusted with public infrastructure and services. Although formal mechanisms such as the Request for Qualification (RfQ) and Request for Proposal (RfP) are designed to promote transparency, competition, and merit-based selection (Pratap & Chakrabarti, 2017), the findings indicate that these safeguards are frequently overridden in practice.

Across cases, political connections and informal influence often shape project allocation, with contracts allegedly favoring firms linked to political actors or powerful networks. Rather than objective assessments of technical and financial capability, selection processes may be influenced by political loyalty or strategic alignment. Such distortions undermine competitive neutrality, enable tailored eligibility conditions, and facilitate biased evaluations that exclude credible competitors. The resulting contracts frequently exhibit skewed risk-sharing arrangements and excessive private returns, increasing fiscal exposure for the public sector. Over time, this dynamic encourages market concentration, as politically connected firms gain repeated access to public projects, weakening competition and eroding value for money.

B. Defective Contracts and Inflated Costs

Crony capitalism also manifests prominently in defective contract design and inflated project costs. While PPP concession agreements are intended to clearly define responsibilities, risks, and returns (Pratap & Chakrabarti, 2017), political influence can distort contractual provisions in favor of private partners. Public authorities may confine their role to formal contractual compliance, delegating operational responsibilities with limited oversight, thereby weakening accountability and transparency (Cruz & Marques, 2013).

This distortion is especially evident in projects involving Viability Gap Funding (VGF), where inadequate due diligence and weak monitoring create scope for misuse of public funds. Inflated cost estimates, poor-quality outputs, and project delays frequently follow, reflecting the socialization of risks and privatization of profits. Preferential access to land, permits, or regulatory approvals further compounds these advantages. Post-award monitoring failures enable politically connected firms to exploit contractual loopholes, contributing to cost overruns through defective contract design, weak enforcement, and practices such as “gold-plating,” where costs are deliberately inflated (Rajan et al., 2014). These outcomes systematically undermine project efficiency and public interest.

C. Regulatory Capture, Transparency, and Accountability Deficits

Regulatory capture, transparency failures, and accountability deficits emerge as deeply interlinked governance challenges in crony capitalism–affected PPPs. Regulatory capture occurs when oversight institutions exhibit systematic bias, allowing private actors to weaken regulation and monitoring mechanisms for preferential treatment (Cruz & Marques, 2013). In the Indian context, regulatory agencies intended to safeguard public interest often face political or industry pressure, eroding their independence.

These dynamics are reinforced by persistent transparency deficits. Non-transparent procurement processes, political intervention in project execution, and unequal access to information limit public scrutiny and disadvantage bidders lacking political influence (Greve & Hodge, 2013). Complex financial structures further obscure true project costs and risk allocation, while weak contractual safeguards and ineffective dispute resolution mechanisms constrain the state's ability to enforce accountability. The absence of robust independent monitoring amplifies regulatory lapses, enabling cronyistic practices to persist. Collectively, regulatory capture and transparency failures distort fair competition, shift risks to the public sector, and erode trust in PPP governance.

D. Renegotiations in Crony Capitalism-Affected PPPs

Renegotiation represents a distinct and critical channel through which crony capitalism operates within PPPs. While renegotiations may arise due to changing economic or operational conditions, their high frequency in PPPs often signals opportunistic behavior rather than genuine contractual adaptation (Guasch, 2004). Both public authorities and private operators may initiate renegotiations, but evidence suggests that private actors–particularly politically connected firms–are better positioned to secure favorable outcomes (Cruz & Marques, 2013).

In cronyistic settings, firms may submit artificially low bids to win contracts, anticipating advantageous renegotiations during implementation. These renegotiations frequently deviate from original contractual terms and disproportionately benefit private partners, undermining public value. Asymmetric bargaining power, weak transparency, and inadequate oversight allow financial risks to be shifted onto the public sector while private profits are protected. The lack of rigorous justification and monitoring during renegotiations contributes to cost overruns, delays, and substandard performance, revealing how renegotiation becomes a mechanism for post-award capture rather than risk management.

IV. When Crony Capitalism Finds Success in PPPs: Evidences from India

Numerous projects bear the hallmark of being influenced by crony capitalism in India. Some of such projects that illustrate this phenomenon is discussed here.

1. The Vizhinjam International Seaport development project in Kerala, India

The Vizhinjam port project constitutes a prominent case study illustrating manifestations of crony capitalism within PPP initiatives in India. Multiple institutional, contractual, and financial irregularities point to systematic advantages conferred on the private operator at the expense of public interest.

The Model Concession Agreement (MCA) exhibits significant irregularities, including wasteful expenditures and deviations that inadequately safeguard state interests while favoring the private operator, Adani Group (PTI, 2017). Project cost estimates were reportedly inflated due to insufficient governmental due diligence in assessing financial and technical inputs provided by external consultants (Asianet, 2016). Further concerns arise from structural modifications to the concession agreement between the Request for Qualification (RfQ) stage and final execution, raising questions of favoritism and non-compliance with central government guidelines (CAG, 2016).

The extension of the concession period from the standard 30 years to 40 years, with a further possible extension of 20 years, disproportionately benefits the private operator and potentially undermines the state's long-term financial returns (PTI, 2017). The Comptroller and Auditor General (CAG) also highlights lavish subsidy provisions that are misaligned with projected public benefits (CAG, 2016). Additionally, a project-specific termination clause allows compensation to the concessionaire upon withdrawal–an atypical provision that could impose substantial fiscal burdens on the state (CAG, 2016).

Transparency concerns are further intensified by the non-disclosure of the Ernst & Young feasibility study until after the concession agreement was finalized, raising doubts about the project's financial viability (CAG, 2016). The inclusion of real estate development as a compensatory mechanism for viability gaps–introduced without disclosure during the tendering stage–appears to have benefited the sole eligible bidder (CAG, 2016). Collectively, these factors reinforce the CAG's conclusion that the private partner emerged as the principal beneficiary of the project, while the state's interests were systematically undermined during the design and execution of the MCA (CAG, 2016).

2. Vallarpadam International Container Transshipment Terminal project, Kerala, India

Another significant PPP case study from Kerala is the Vallarpadam International Container Transshipment Terminal (ICTT), which raises concerns regarding potential manifestations of crony capitalism. The project reveals contractual deviations and governance practices that appear to disproportionately favor the private partner.

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A key issue relates to unequal concessions and post-tender deviations from original contract terms. The early migration of DP World from the Rajiv Gandhi Container Terminal (RGCT) to ICTT was facilitated through substantial concessions granted by the public partner, Cochin Port Trust, even before the achievement of stipulated traffic thresholds. These concessions included revisions to upfront fees, deferment of royalty payments, reduced license fees, and other financial benefits. Granting such concessions after the tendering process to ensure early migration raises concerns of favoritism, unequal risk-sharing, and compromised contractual integrity (Manoj, 2015). The Comptroller and Auditor General further observed that these post-tender concessions skewed the balance of risks and benefits in favor of the private operator, thereby undermining the transparency and fairness of the PPP arrangement (CAG, 2015).

Additionally, the inclusion of a non-sharable revenue clause in the license agreement resulted in financial losses to the public partner amounting to ₹110.58 crore over a ten-year period, raising serious questions about the equity and design of the PPP contract (CAG, 2015). Accountability concerns were further compounded by the absence of contractual provisions linking private partner performance to project objectives. Despite operational shortcomings, the agreement lacked enforceable clauses to penalize underperformance or ensure corrective action (CPJTUF, 2020). The absence of a termination provision in cases of persistent failure further underscores structural weaknesses in the PPP framework, reinforcing concerns about inadequate safeguards for public interest.

3. The Gurgaon Rapid Metro project, Haryana, India

This project faced issues of cost overruns and financial irregularities with presence of significantly inflated ridership estimates. The alleged crony capitalist instances include awarding of the project to a sole bidder without competitive processes, a concession agreement seemingly biased toward private companies, undue benefits granted to real estate players, and the potential transfer of project liabilities to the government (Bhatia, 2019).

4. Indira Gandhi International Airport in Delhi, India

The modernization of the Indira Gandhi International Airport in Delhi through a PPP model faced allegations of crony capitalism and contractual irregularities. Operations, Maintenance and Development Agreement signed in 2006 between the Airports Authority of India (AAI) and Delhi International Airport Private Limited (DIAL), led by the GMR Group, undue favoritism shown by the Ministry of Civil

Aviation towards a private developer (DIAL) in the Indira Gandhi International Airport project. This favouritism is reflected in post-bid concessions, lack of transparency in extending the concession period from 30 to 60 years without proper justification, provision of the first right of refusal to the private developer, violation of regulations to provide post-contractual benefits, and questionable land lease arrangements (Dutta, 2012). These actions were taken at the expense of the larger public interest, suggesting a disregard for transparency, accountability, and fair competition, and thus exemplifying elements of crony capitalism. The finance ministry's senior officials underwent thorough questioning from the parliamentary standing committee on finance for alleged Crony Capitalism in the project. The committee expressed concerns about PPP projects, noting a trend where these initiatives transform into monopolistic endeavours managed by private operators (Deshpande, 2012). These operators utilize public resources to the detriment of the greater public good.

5. Renegotiations in India

The practice of contract renegotiations was observed in the case of the Delhi airport contract during the UPA regime (Maira, 2023). There are concerns that a similar scenario might occur with the contracts awarded to Adani for airports, as its initial bids were deemed highly appealing. This raises apprehensions about potential modifications to the contracts at a later stage. In the context of India, instances of renegotiations have primarily been instigated by the private sector. Curiously, the government exhibits a reluctance to proactively initiate renegotiations, even when such actions could serve to safeguard its own interests. Several instances of project renegotiations have occurred in the Indian context, with notable cases outlined below across diverse sectors:

1. Dabhol Power Project, 2. GVK Jegurupadu Electricity Generation Project, 3. Tata Mundra Ultra Mega Power Project 4. Kishangarh–Udaipur–Ahmedabad Road Project, 5. Delhi Airport Line (Subsequently cancelled) (Pratap & Chakrabarti, 2017).

V. Conclusion

This qualitative policy essay provides a nuanced understanding of how crony capitalism manifests within PPP frameworks and distorts collaborative governance. The findings reaffirm that crony capitalism poses a serious challenge to fair competition, transparency, and meritocracy, with PPPs being particularly vulnerable due to their long-term, complex public–private interactions.

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The Indian experience illustrates how crony capitalism can infiltrate PPPs, undermining procurement integrity, contract management, and public welfare objectives. Despite growing scholarly attention, systematic research on crony capitalism in PPPs remains limited, highlighting a significant knowledge gap. Strengthening transparency, accountability, and equitable contractual governance is essential to prevent private interests from capturing public resources. Addressing these challenges is critical to preserving the legitimacy of PPPs and ensuring that public–private collaboration delivers genuine societal benefits. Future research should advance this agenda through policy, legal, and empirical inquiry.

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