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# **Financial Support to Public Private Partnership (PPP)- Recent GOI initiatives**

**By**  
**Secretary**  
**Department of Economic Affairs**  
**Government of India**

**Conference of Chief Secretaries on PPP in Infrastructure**

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# Financing Options for Infrastructure Development

- Public Investment
  - Government Revenues
  - Earmarked taxes: cess
  - Government debt financing
- Private Investment/Privatization
- A third option has emerged : Public Private Partnership (PPPs) which is a means of public procurement distinct from traditional practice
  - public goods
  - ownership issues
  - user fee concerns
  - risk mitigation



# Financing Options under PPPs

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## Alternate Financing Options for PPPs

User Fee  
full cost  
recovery basis  
no guarantees

User Fee  
with minimum  
revenue  
guarantee

Funded via  
shadow tolls  
or subsidies  
Annuity Scheme

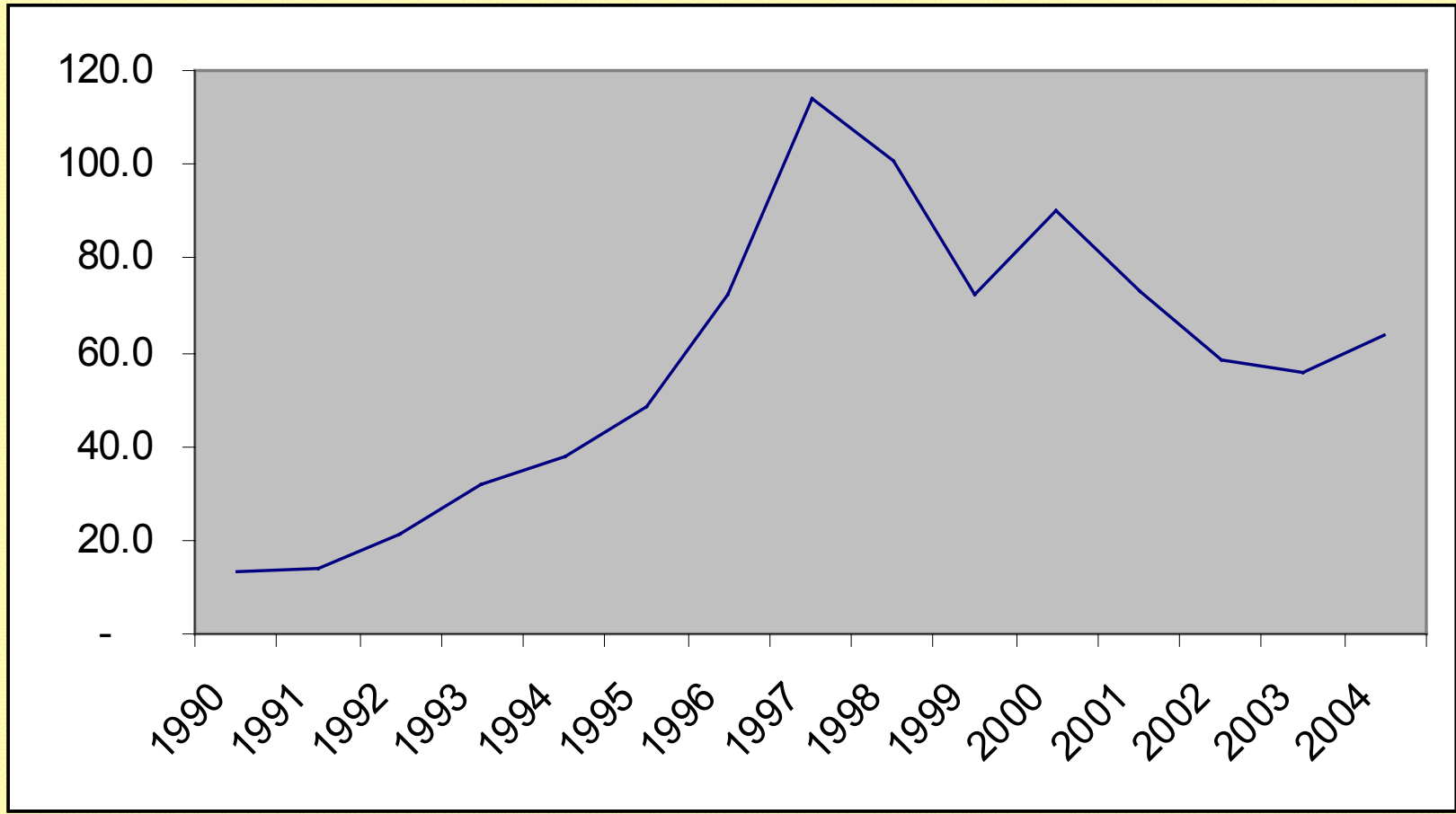
Combination of  
User Fee  
and initial  
capital grant



# International experience in PPPs

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## Investment in Infrastructure Projects with Private Participation: Developing Countries (\$US bn)



Source: World Bank



# International experience in PPPs

(contd.)

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- 2004 and 2005: around 206 PPP deals worth approximately US\$52 billion were closed, of which Europe accounts for 152 projects of US \$ 26 billion
- PPP approach increasingly being adopted in all countries, initially in the transport sector and later extended to health, education, energy, water, waste management
- Globally, PPPs have track record in contributing to new infrastructure investment and improved service delivery
- In developing countries despite declines since peak - averages 20% of infrastructure investment
- Evidence suggests broad improvements in efficiency, coverage

(source: Report of Pricewaterhouse Coopers, and World Bank)



# International Experience in PPPs

(contd.)

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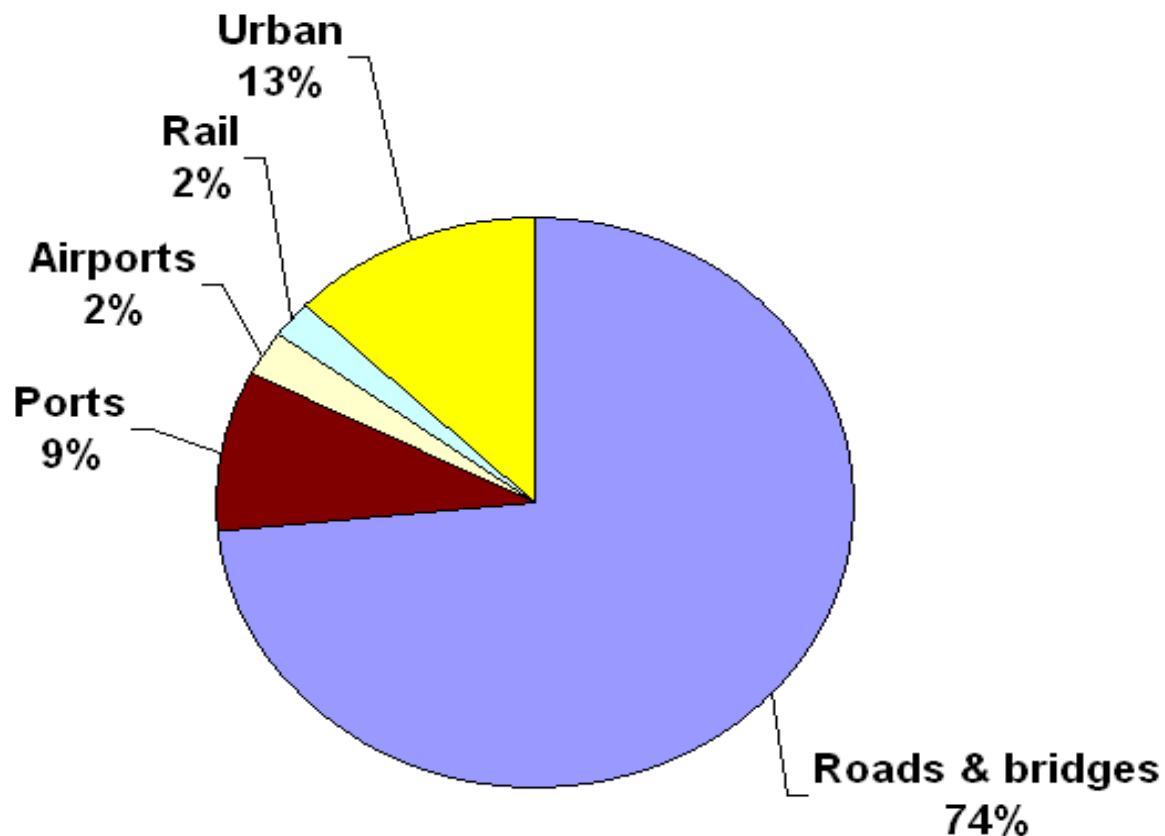
Building for Growth	UK	Japan	South Africa	Latin America
	PFI began in 1992, presently accounts for 14% of public investment. Availability based payments by government	First Asian country to take up a PPP, with PFI Law in 1999. three models for projects: free-standing, joint-venture, and service-provision structure (PFI type). The last category dominates the market.	Actively using PPPs since 2000 at all levels – national, provincial and municipal	Actively using PPPs since 1989 at all levels. 30% of concessions went into re-negotiation
Key Driver	Reduce public borrowings, accelerate investments, ensure value for money in public infrastructure investment	initially budget deficit. Subsequently the apparent benefits of PPPs in performance efficiency	need to improve service delivery	fiscal constraint, desire to improve performance and efficiency
Deals closed so far	over 450 deals with a value of more than £ 34 billion have been signed between 1999 to 2004 (source: UK Treasury)	The first prison deal is currently in procurement and there is a strong deal flow in other sectors. 3 separate projects in Haneda airport currently being put to market	12 deals signed so far and another 56 at various stages of completion	1090 deals signed since 1990. Latin America accounts for over 50% of PPPs entered in developing countries during 1990 to 2003. After initial peak there has been a slump
Sectors covered	education, health, Telecom, prison, urban housing, emergency services, defence, law & order, etc	housing, prison, water, waste management, airport	housing, prison, health, eco-tourism	energy, telecom, transport, airport, prison, reservoir



# PPPs in India – Uneven Progress.

## Number of awarded PPPs by sector

(total projects = 86) source: World Bank



Survey covering 12 states and 3 central agencies and 5 infrastructure sectors.

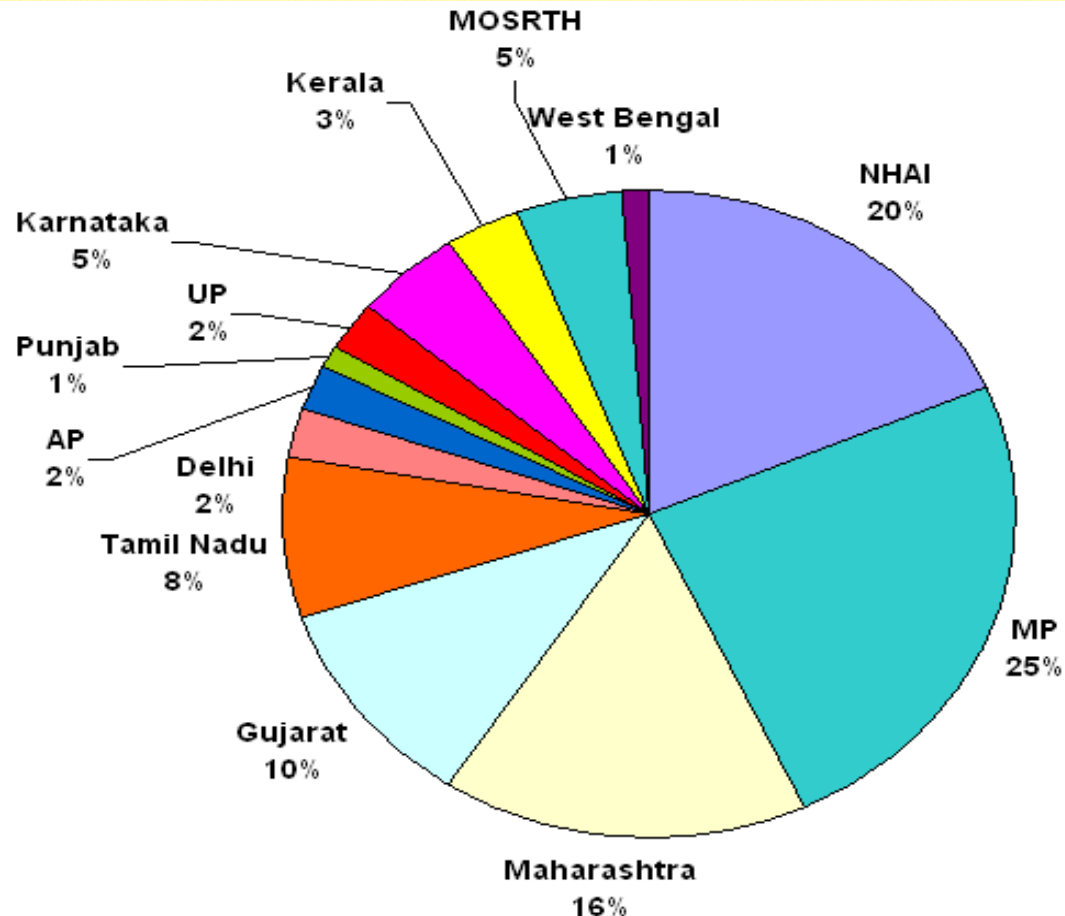
Year: 2005



# PPPs in India – Uneven Progress contd.

## Awarded PPP projects by states & central agencies

(total = 86) source: World Bank



Survey covering 12 states and 3 central agencies and 5 infrastructure sectors.  
Year: 2005



# Recent GOI Initiatives for PPPs

- Viability Gap Funding Scheme
  - Infrastructure projects often are not commercially viable
  - Viability Gap Fund (VGF) Scheme would focus on projects which are commercially unviable but have high economic benefit
- India Infrastructure Finance Company Limited (IIFCL)
  - The Indian capital market does not meet the long term debt requirement of infrastructure projects
  - A specialised company to cater this demand of infrastructure projects
- Focus on promoting PPPs in economic infrastructure initially where user fee finances the projects with some support from sponsoring authority/government in form of capital grant



# Viability Gap Funding Scheme

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- Not a pure subsidy scheme for infrastructure projects
- Seeks to cover PPPs where
  - private sector provides infrastructure services for a fee under a concession agreement
  - concession granted on basis of a transparent bidding process
  - bidding parameter is the capital grant sought
  - bidder is assured of a stable environment through a concession agreement
- Eligible sectors: transportation, urban infrastructure, tourism, energy, any other sector could be considered with prior approval.



# Viability Gap Funding Scheme

- Funding of 20% of Project Cost. If required, an additional 20% can be made available by the sponsoring Ministry/agency
- Empowered Institution/Committee set up for quick processing of cases
  - Viability Gap Funding up to Rs. 100 crore (Rs. One hundred crore) for each project will be sanctioned by the Empowered Institution
  - Proposals up to Rs. 200 crore (Rs. Two hundred crore) will be sanctioned by the Empowered Committee, and
  - Amounts exceeding Rs. 200 crore will be sanctioned by the Empowered Committee with the approval of Finance Minister



# Eligibility Criteria for VGF Scheme

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- Project shall be implemented i.e. developed, financed, constructed, maintained and operated for the Project Term by a Private Sector Company to be selected by the Government or a statutory entity through a process of open competitive bidding; for railway projects provision for relaxation.
- Project should provide a service against payment of a pre- determined tariff or user charge
- Concerned Government/statutory entity should certify, with reasons:
  - that the tariff/user charge cannot be increased to eliminate or reduce the viability gap of the PPP;
  - that the Project Term cannot be increased for reducing the viability gap; and
  - that the capital costs are reasonable and based on the standards and specifications normally applicable to such projects and that the capital costs cannot be further restricted for reducing the viability gap.



# VGF Proposals

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- Proposals received from Gujarat, Maharashtra, Madhya Pradesh, Rajasthan, Delhi, Tripura, Punjab, Karnataka for highways, power, solid waste management
  - In-principle approval granted for 5 highway projects, 3 in Gujarat and 2 in Maharashtra
  - Six proposals will be considered for in-principle approval shortly
- Deficiencies noticed in some of the proposals received so far
    - **Sponsoring authority is not a State entity**
    - **Tariff is not pre-determined**
    - **No viability gap projected**
    - **Project already under implementation**
    - **VGF not the bidding parameter**
    - **Selection of private entity not through competitive process**



# IIFC

- Infrastructure projects have long gestation and often need long term debt (+10 years) and IFI unable to provide such funds due to asset-liability mismatch. Long-term debt funds at nascent stage.
- IIFC will
  - Ease asset-liability mismatch of IFIs through refinance;
  - Lower Long term debt cost due to sovereign guarantees
  - Set benchmarks for market borrowings by other organizations.
- IIFC will
  - Borrow long term funds on GoI guarantees, from multilateral organizations etc and lend to identified Infrastructure projects in 6 sectors either directly or through refinance of long term FI debt.
  - Lending up to 20% of the project cost
  - Covers Public Sector, PPP; or Private Sector
- So far 10 proposals received but no funding has taken place



# Initiatives to Promote PPPs

- Department of Economic Affairs has taken the following initiatives to promote PPPs:
  - Preparation of a handbook for PPPs
  - Development of a database for PPPs
  - External Assistance for capacity building in State Government and Line Ministries for PPPs
  - Regional workshops to disseminate information
  - Exposure to “Best Practices” for State/Central Ministry officials in countries with substantial experience in PPPs
  - Road-shows in major investor countries for “vendor development”



# Move Forward

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- State Governments have been requested to take the following actions:
  - “Infrastructure” & ‘PPP’ be entered as subjects in the Rules of Business Transaction and assigned to one Department for focus where a ‘PPP Cell/PMU’ may be created, preferably in Department of Planning or Finance;
  - One Secretary level officer may be declared the ‘Nodal Officer’ for dealing with the subjects and for coordination with infrastructure departments in the State Government and with GOI;
  - Infrastructure departments ought to set own financial targets of attracting private investment through PPP and these could be monitored and reviewed as ‘Plan outside of Plan’ regularly;
  - Capacity building needs be identified and the PPP nodal agency may communicate requirements to DEA.
- Response received from some State Governments. Request all State Governments to respond



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# Thank You