

Public Private Partnership in State Highways

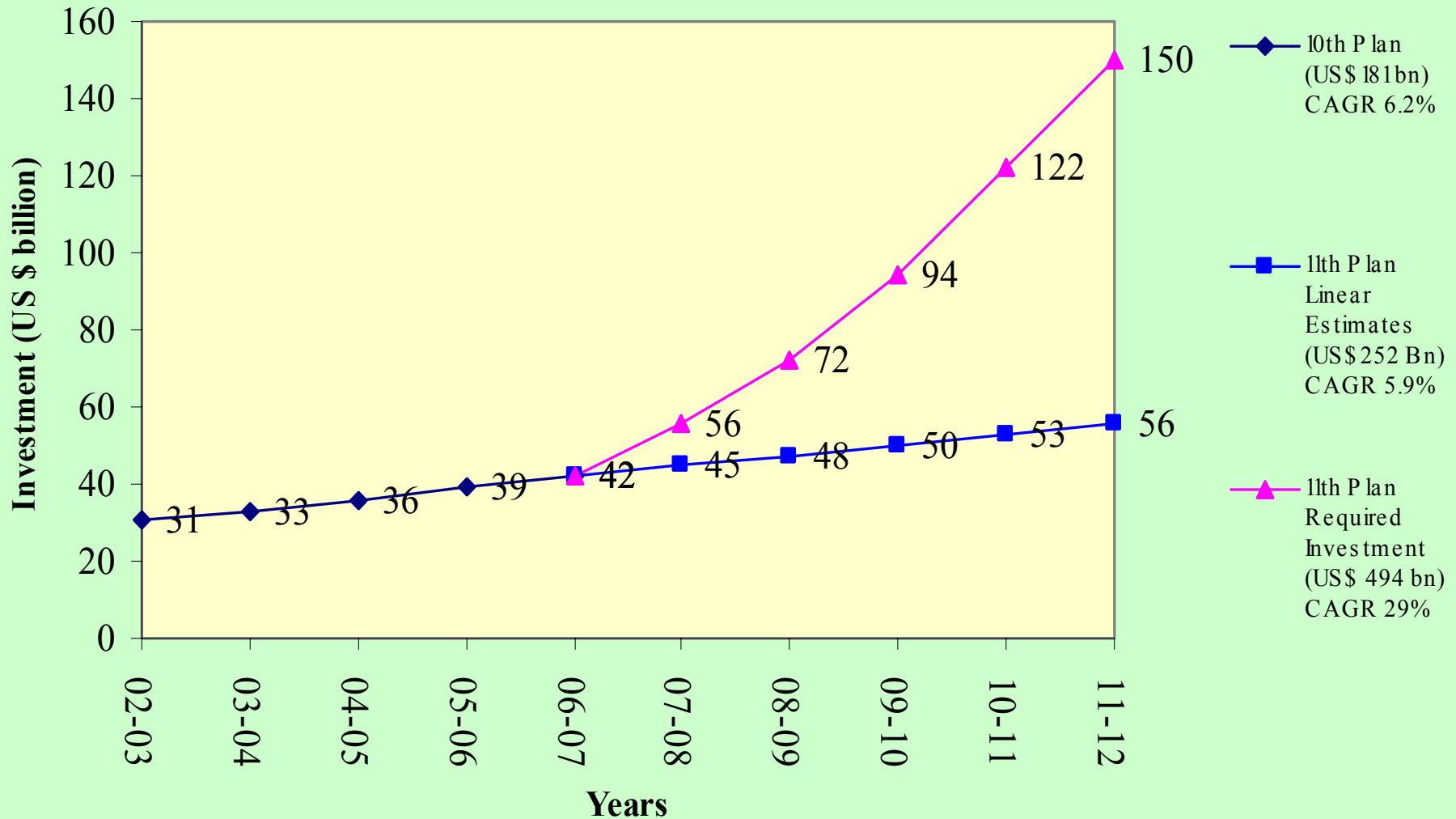


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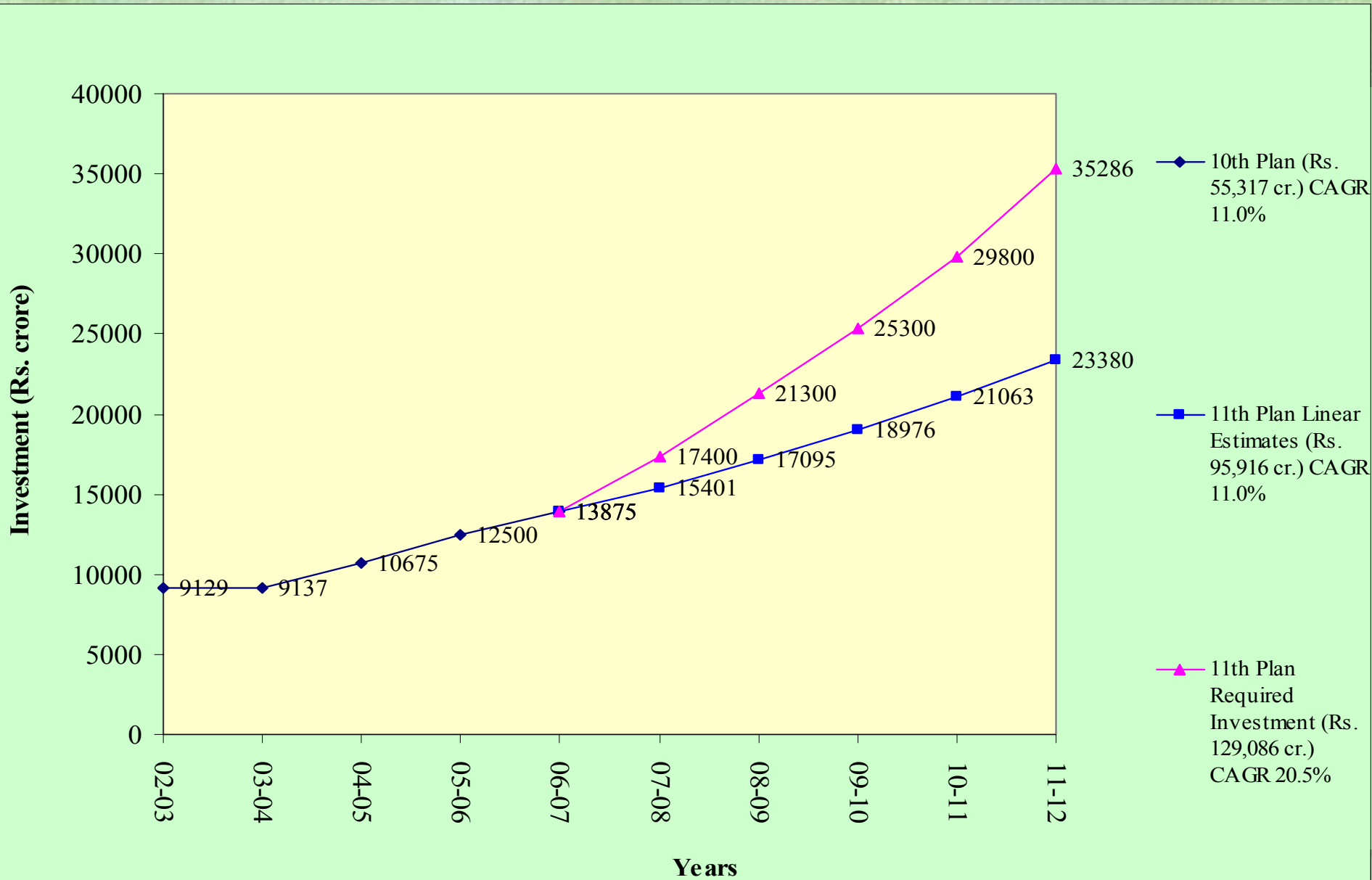
Scale of the Challenge

Projected Investment in Infrastructure (at 2005-06 Prices)



Projected Investment in State Roads

(at 2005-06 Prices)



Investment in State Roads

(Rs. in crore)

Type of Road	Tenth Plan	Eleventh Plan (Projected)		
		Public	Private	Total
State Roads	55,317	95,916	33,170	129,086
Rural Roads	21,022	64,533	-	64,533
Total	76,339	160,449	33,170	193,619

Division of Labour

- State, district & rural road network require large resources for augmentation and upkeep
- Rapid growth in number of cars, buses & goods vehicles
- Public sector operations to continue, and even expand
 - Especially in segments that can't be commercialised, such as rural roads and other district roads
- Reliance on PPPs for additionality & efficiency is inevitable
 - Especially in segments that can be commercialised, such as state highways

Stages of PPPs

- I. Public sector provision of Infrastructure: Command & Control
 - PPP is an exception

 - II. Introduction of PPPs: The Transition
 - Largely negotiated, often opaque
 - Often driven by private beneficiariaries

 - III. PPPs gain acceptability: Enhancing welfare & efficiency
 - Transparent, competitive and fair
 - Driven by the government; good governance becomes the key issue
 - Objective is to attract private capital in public projects
- Indian PPP projects are in stage III

Governance issues in PPPs

- Unwillingness of incumbents to yield control over project construction & operation
- Excessive government control over functioning of PPPs
- Inadequate and inefficient roll out of projects
 - The demand for PPP projects is far greater than their supply
- Incumbent mindset constitutes a major challenge
- Inadequate capacity & inter-departmental participation

Typical documents for PPP

- Substantive Documents
 - Concession Agreement
 - Manual of Specifications & Standards
 - Rules for user charges

- Process Documents
 - TOR for preparation of Feasibility Report
 - RFQ document for pre-qualification of bidders
 - RFP document for financial bids

Model Concession Agreement

- Need for a Model Concession Agreement (MCA)
 - Limited recourse financing
 - Risk allocation
 - Safeguarding public exchequer & user interests
 - Predictability of costs and obligations
 - Reduction in transaction costs and time
 - Predictability in revenue streams; pre-determined user charges with automatic revision

MCA (contd.)

- Concessionaire's Risks
 - Construction
 - Operation
 - Non-political force majeure
 - Traffic growth

- Government's Risks
 - Political force majeure
 - Change in scope or specifications
 - Change in Law

MCA (contd.)

- Technical Provisions
 - Output specifications
 - Service quality orientation
 - Independent Consultant

- Other Features
 - Financial close in 180 days
 - Exclusion of local traffic
 - Land related provisions

Manual of Standards & Specifications

- Salient features of the Manual of Standards & Specifications
 - Specifies the technical requirements for safe and reliable highways
 - Enables innovation in design and construction to reduce lifecycle costs while conforming to mandatory standards
 - Eliminates case by case approach; yet allows for project-specific deviations
 - Reduces project preparation time
 - Safeguards user interest by specifying service outputs
 - Provides greater predictability to the concessionaire

Model RFQ document

- Salient features of Model RFQ
 - Selection through open competitive bidding
 - Two stage bidding process; RFQ & RFP
 - Transparent, fair and inexpensive process for pre-qualification & short-listing of bidders
 - Experience to be indicator of technical capacity
 - Net worth to be indicator of financial capacity
 - Grant/revenue share to be sole criteria for bidding

Documents being evolved

- RFP document; IMG constituted
- TOR for preparation of feasibility Reports; drafting to be commenced shortly
- Rules for User charges
 - Jurisdiction rests with the States
 - Current rules require review
 - Draft Rules in MCA or revised Rules of the Central Government could serve as a model

Assistance for States

- Standardised documents & processes will enable accelerated roll out of bankable projects
- States can avail of upto 20% of capital costs as VGF grant from Central Government
- They can also avail of 20% of capital costs as long-term loans from IIFC
- Technical assistance being provided by Planning Commission
- Assistance for capacity building being provided by the Finance Ministry

Way forward

- Reliance on PPPs in State highways is inevitable
- Adopt standardised documents and processes for safe, efficient & economic delivery
- Accelerate the roll-out of PPP projects
- Objective is to build first-rate State highways with least cost to the Government

THANK YOU