FOSTERING PPPs-
NEW REALM OF FINANCIAL MECHANISMS

Mainstreaming Sustainability in Indian FIs
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Indian economy - Strong fundamentals

Consistently growing GDP (%)

Positioned as the fourth largest economy in terms of purchasing power parity...

Predicted at one of the four fastest growing economies by 2020...

Among the top 5 economies (PPP) 2005

Countries like China spends 9% of GDP in Infrastructure

INFRASCTURE SPENDING NEEDS TO INCREASE TO 7%-8% OF THE GDP TO SUSTAIN ECONOMIC GROWTH

Source: Morgan Stanley report on BRIC countries
Main Pillars for sustaining the growth

- **Agriculture**: GDP growth for 2006-07 projected at 2.6%
  - India fourth largest Agricultural Power; Potential not fully tapped
  - Currently contributes to 22% of GDP

- **Health**: India spends about 5% of GDP in providing health services
  - Though absolute expenditure (US$ 30 billion p.a.) comparable to most developing countries, per capita healthcare expenditure is low

- **Education**: Current literacy rate at about 65%
  - Requirement in improving the Infrastructure at Primary, Secondary and Higher education levels

- **Manufacturing**: growth of about 11% p.a.
  - Conscious strategy towards value addition in the Manufacturing sector
  - India competing with China to become global manufacturing hub

- **Services Industry**: India positioning itself as a knowledge driven economy

Development of core physical & social infrastructure expected to be the single most important factor to sustain economic growth
Impact of Infrastructure

- Infrastructure Investment has a direct impact in improving the quality of life of the people
  - The Indian government’s expenditure on road has helped farmers transport their goods to markets, gave them better access to higher-wage employment opportunities in the rural nonfarm sector,

- Investment in infrastructure in general (power, water supply, and communications) also reduced poverty by enhancing agricultural productivity growth, thus increasing farm incomes and expanding the nonagricultural sector.

- There is a high correlation between the extent of education provided and the level of disposable income.
Infrastructure Development- Challenges

✓ **Resource Requirement:** Govt. resources would not be adequate for Infrastructure Development (US$ 320 billion in the next 5 years)
  ✓ Current Govt. Infra Spending **3.6% of GDP**; Requirement: **8% of GDP**
  ✓ Though traditionally funded through fiscal sources, the current Fiscal Deficit position allows little scope for major rise in Infrastructure sector funding

✓ **Efficiency Improvement:** Improving Efficiency in Service Delivery
  ✓ Infusion of best practices by Private Sector in implementation & operations of Projects
  ✓ PPPs can be structured by linking payments to productivity gains

✓ **Cost Effectiveness of Services provided:**
  ✓ Natural monopolies can be broken by selection of a private party through a transparent bidding process

GOVERNMENT REALISES THE NEED FOR INVOLVEMENT OF PRIVATE SECTOR IN THE DEVELOPMENT OF INFRASTRUCTURE THROUGH PPPs
**PPPs- The Concept**

- **PPP**- an approach under which services that the *responsibility for providing the service rests with the government* are delivered by private sector.
  - There is a partnership based on a well articulated contract
  - There is a long term relationship between Public & Private sector
  - Funds may/ may not be committed by Private Sector
  - The Private Sector would include the Corporate Sector as well as the Non Profit Sector including Voluntary Organisations/ NGOs

- Type of PPP varies across different sectors
  - In some sectors like Road, Power, Airports, etc., the Private player brings infuses funds and also participates in service delivery.
  - In some sectors like health, Education, Women & Child welfare, etc., public funding is used for private service delivery & management
    - Social services in the health/ education sectors which require a lot of commitment require the services of dedicated volunteers of the Voluntary Organisations/ NGOs
The PPP Framework

**Role of Government:**
- Identification of projects & strategies for PPPs
  - Private sector involvement only for service delivery or for funding too
  - Evolving suitable regulations for PPPs
  - Providing Institutional support

**Role of Private Sector:**
- Investment in Project based on requirement
- Improvement in efficiency through better management capabilities & technology infusion
- Bringing in a commercial perspective in operations

**Role of People:**
- People ultimate end users/client- Hence, consultation with people necessary
- Constructive support to the entire PPP transaction to ensure its success
- Ensure transparency of the entire process as end beneficiaries

**Ability to understand & meet peoples expectation is critical for commercial viability & sustainability of infrastructure projects**
PPP experience in Infrastructure sector

✔ Policy framework for implementing PPPs in place in most sectors
  ✔ Thrust of the framework is on Transparency, Effective Risk allocation through clear contractual obligations, Ensuring adequate returns & increasing competition
  ✔ The ‘Model Concession Agreement’ in place for BOT/ Annuity based projects in the Road Sector; Ultra Mega Power Projects being implemented through PPP route

✔ Efforts by the Government to improve viability of projects while at the same time ensuring competition
  ✔ Regulatory bodies in place in most sectors- ERCs in Power Sector, NHAI for Road Sector, TAMP for Port Sector, TRAI for Telecom sector
  ✔ Schemes for providing Government Grants in unviable projects in place

✔ Adoption of Project Finance route for implementing PPP Projects
  ✔ About 60-80% of the Project being financed through Banks/ FIs
  ✔ Non-recourse, limited recourse financing
  ✔ Door-to-door maturity of loans 13-15 years
Implementation of PPPs – Sector-wise

✓ Road Sector
  ✓ NHAI, the nodal agency responsible for implementing the NHDP through Annuity/ BOT approaches;
    ✓ 25-30% of all road projects being implemented through PPPs
  ✓ Transparent bidding process in place for selection of the Private developer
  ✓ ‘Model Concession Agreement’ of NHAI in place
  ✓ High level of interest elicited for widening of NHs and greenfield development
  ✓ Government provides Grants in case of unviable projects (Mumbai-Nasik Project; Jaipur- Mahua project)

✓ Power Sector
  ✓ ‘Electricity Act 2003’ provides for Private Participation
  ✓ Transparent bidding process evolved for selection of private developers in the Generation/ Transmission sectors
    ✓ Ultra Mega Power Project and Western Region Grid strengthening project implemented through PPP route
Implementation of PPPs – Sector-wise

- **Port Sector**
  - National Maritime Policy formulated for creating an enabling framework for PPPs
  - PPPs being implemented for upgradation of existing ports as well as for greenfield ports (E.g. Dhamra Port)
  - Transparent tariff fixation by ‘Tariff Authority of Major Ports’

- **Railways**
  - Dedicated freight corridors on Eastern and Western high density routes proposed to be developed through PPPs per Integrated Railway modernisation program
  - Private Participation sought for containerised involvement of cargo
  - Development of rail-side warehouse and logistics park through PPP

- **Airports**
  - AAI act amended to provide legal framework for airport privatisation
  - Privatisation of Delhi/ Mumbai Airports in progress; other airports to follow suit
Implementation of PPPs – Sector-wise

✓ Thrust of PPPs in sectors like Health/ Education, etc., is more in terms of employing the private sector (mainly VOs & NGOs) for service delivery and management

✓ In these sectors PPP frameworks/ Govt. guidelines are at a very nascent stage and still evolving

✓ Primary Education Sector:
  ✓ Computer Aided Learning under Sarva Shiksha Abhyan Scheme
  ✓ Local State Governments provide funds to the Private Firms to provide computer training
  ✓ The Azim Premji Foundation is implementing the program in 135 schools in Karnataka

✓ Higher Education Sector:
  ✓ Private Universities encouraged to set up a ‘Deemed to be’ University under the aegis of UGC.
  ✓ Private Universities can be set up in States like Maharashtra which have promulgated the Private Universities Bill
Implementation of PPPs – Sector-wise

✓ **Health Sector:**
  ✓ Implementation of the National AIDS control program:
    ✓ NGOs involved for the implementation of the program for preventive interventions and build capacity amongst the State agencies
  ✓ National TB Control Program:
    ✓ Involvement of Private hospital/ Nursing homes/ NGOs / Corporate sector health care institutions fro implementing the above program. Grant-in-Aid by GoI used for financing the program

✓ **Urban Infrastructure Sector:**
  ✓ Ministry of Urban Development has formulated the ‘Guidelines for Sector Reforms and for successful Public-Private-Partnership in the Urban Water Supply & Sanitation sector’
    ✓ PPPs in the water supply and sanitation sector implemented in Tirupur
  ✓ Projects being structured in the Urban Infrastructure sector with credit enhancement from multilateral agencies like USAID, World Bank, etc.
PPPs- Govt. of India Initiatives

✓ Provision of Grants to projects which are commercially unviable
  ✓ Positive Grants given to the private developer in the case of Mumbai-Nasik
    and Jaipur-Mahua Road projects

✓ Implementation of the Viability Gap Funding (VGF) Scheme
  ✓ Govt. to provide VGF in the case of infrastructure projects where user
    charges/tariffs not adequate to make the project viable
  ✓ Applies to project implemented by Private Sector selector through competitive
    bidding process adopted by a statutory entity
  ✓ Bidding criteria is the minimum VGF required

✓ Creation of IIFCL primarily for financing of PPP projects:

✓ Proposal to fund the infrastructure projects through the accumulated
  foreign exchange reserves
Success of PPPs – Critical Factors

- Appropriate Risk allocation between the Private party, the Government and other stakeholders (including lenders) through appropriate contractual framework.

- Involvement of the people in the PPP process including the ability to understand and meet peoples expectations

- Government needs to:
  - Creating enabling framework for the implementation of projects through PPPs
  - Ensure Transparency of the entire process in selecting the Private developer
Thank you