

**FOSTERING PPPs-**  
**NEW REALM OF FINANCIAL MECHANISMS**

**Mainstreaming Sustainability in Indian FIs**  
**Senior Level Executive Workshop**  
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**EXPERIENCE OUR EXPERTISE**

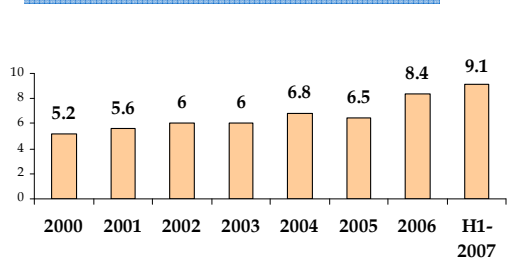
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# Indian economy- Strong fundamentals



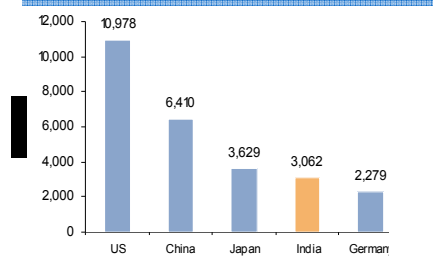
Indian economy in a resilient mode in terms of GDP growth...

Consistently growing GDP (%)



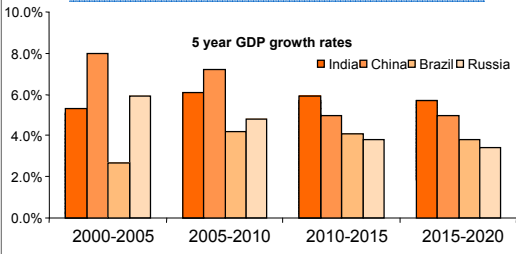
Positioned as the fourth largest economy in terms of purchasing power parity...

Among the top 5 economies (PPP) 2005



Countries like China spends 9% of GDP in Infrastructure

One of the fastest growing economies



Source: Morgan Stanley report on BRIC countries

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

## Indian Economy-Sustaining the growth



- ✓ 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



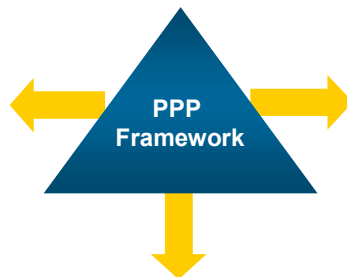
- ✓ PPP- an approach under which services that the *responsibility for providing the service rests with the government* are delivered by private sector.
  - ✓ There is a partnership based on a well articulated contract
  - ✓ There is a long term relationship between Public & Private sector
  - ✓ Funds 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 up gradation 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 for 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**