

Meeting India's Infrastructure Needs with PPP: The International

Experience and Perspective

International Conference by DEA & WB

February 5-6 2007

Hotel Shangri-La, New Delhi

Ever since India embarked on its first phase of Reform in early 1990s, infrastructure development has remained the top priority of the Government. Unfortunately the infrastructure growth has not been commensurate with the demands made on it by an economy that was growing at more than 6% p.a. This period also witnessed a consistent move towards fiscal discipline that further curtailed room for accommodating increasing government funding of major infrastructure projects. The pressures of globalisation further accentuate the infrastructure gap in the country.

With the economy now clocking a growth rate of over 8%, it is estimated that US \$ 320 billion would be required by the infrastructure sectors put together over the next 5 years. A significant percentage of this investment should come from the private sector. Public Private Partnerships (PPP) present the most attractive option of meeting the above targets, not only in providing resources to an extent but also in upgrading the standards of delivery through greater efficiency.

Government has attempted to bring out several innovative schemes aimed at leveraging its position to the fullest given its various commitments, which at times could seem mutually conflicting. Whereas to attract the private sector commercially viable projects should be on offer and to inculcate the discipline of 'user pay principle' provision of these services should be based on payment of tariff, Government must fulfil its commitment to inclusive growth which makes it obligatory to fix the tariffs based on the capacity of the common man to pay. Due

diligence is also essential given the substantial contingent liability that could devolve on the State in such projects.

While encouraging PPPs, we clearly perceive broadly four constraints:

- (a) Weakness in enabling policy and regulatory framework. Substantial work needs to be done in making sector policies and regulations PPP friendly. A large number of these projects are in the States and without the active participation of the States it would not be possible to achieve satisfactory results.
- (b) The market presently does not have adequate instruments and capacity to meet the long-term equity and debt financing needed by infrastructure projects.
- (c) There is also a lack of shelf of credible, bankable infrastructure projects, which could be offered for financing to the private sector. Some initiatives have been taken both at the central as well as the states' level to develop PPP projects these tend to be isolated cases and have demonstrated a marked lack of consistency.
- (d) There is also lack of capacity in public institutions and officials to manage the PPP process. Since these projects involve long term contracts covering the life cycle of the infrastructure asset being created, it is necessary to manage this process to maximise returns to all the stakeholders.

We are making serious efforts to address all these issues to encourage PPPs.

Government has taken measures to create enabling framework for PPPs by addressing issues relating to policy and regulatory environment. Progressively more sectors have been opened to private and foreign investment, levy of user charges is being promoted, regulatory institutions are being set up and strengthened, fiscal incentives are given to infrastructure projects, standardised contractual documents

including the Model Concession Agreement are being notified, approval mechanism for PPPs in the Central sector had been streamlined through setting up of PPPAC and a website exclusively devoted to PPPs has been launched to serve as a virtual market place for PPP projects.

To address financing needs of these projects, various steps have been taken like setting up of India Infrastructure Finance Company and launching of a new Scheme to meet Viability Gap Funding (VGF) of PPP projects. Setting up of infrastructure funds are also being encouraged and multilateral agencies such as ADB have been permitted to raise Rupee bonds and carry out currency swaps to provide long term debt to PPP projects. Recently, Citigroup and IDFC have joined together to launch a US \$ 2 billion infrastructure equity fund and I am assured that it would be fully subscribed before 31 March 2007. An infrastructure debt Fund of US \$ 3 billion is also under consideration of the same combine. Blackstone has also shown interest in putting together another large infrastructure Fund for India and are in discussion with the officials of the Ministry of Finance. Merchant Bankers and multilateral agencies are also being encouraged to provide credit enhancement services for raising cheaper money from market, ECB norms have been eased and the overall limit raised to \$22 billion annually. Indian FIs are also being encouraged to develop an appetite for financing instruments such as take-out finance.

To meet the capacity building requirements in the sector, Technical Assistance from World Bank and ADB has been received and necessary measures are being taken to implement various schemes like assisting the State Governments and Central Ministries in hiring consultants, preparation of a manual on PPPs to guide the users and undertake training programmes for public officials.

The opportunities for private investment in infrastructure projects are immense. As the reach of PPP increases across the sectors, the capacity in the private

sector to manage these projects over their entire life cycle of 2- to 30 years would also have to be enhanced. Government of India now permits FDI in most infrastructure sectors to the extent of 100%. It is time that the foreign strategic investors begin to take greater interest in project development and management activity in India. I am happy to note that in this international conference organized by the World Bank in collaboration with the Finance Ministry, several major private sector players from abroad are also taking part. They would, in addition to sharing with the participants the best practices from around the world they will also take back with them a sense of what is happening in India and the excitement of an economy on the upswing.

Thank you.

**Meeting India's Infrastructure Needs with PPP: The International
Experience and Perspective**

**International Conference by DEA & WB
February 5-6 2007
Hotel Shangri-La, New Delhi**

Talking points for FM and the programme sheet are placed below.

(Arvind Mayaram)
Joint Secretary (Infra.)
31 January 2007