UNESCAP High-level Expert Group Meeting on Infrastructure Public-Private Partnerships for Sustainable Development

Attracting Private Sector Investment in Infrastructure – Experiences from India

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The Context
Concept

- The above slide graphically represents some important statistics. The statistics reveal how the policy thinking has actually translated into actions over the last couple of Five Year Plans:

a. The GDP growth rate has been targeted towards 10% in the current FYP (11th FYP);

b. This growth rate can be sustained by increasing the infrastructure spending. After a slowdown until the 10th FYP, the share of infrastructure spending in the GDP is expected to rise – the target being about 10% in the 12th FYP.

c. Over 100% growth in infrastructure expenditure is expected in each of the FYPs since the 10th plan (2002-07)

d. The share of private capital is also be expected to increase from 25% to about 38%.
The Financing Challenge

- Banks’ total advances – around $1 trillion
  - Not over 15-20% in long term debt
- Gross Domestic Savings @ 30% of GDP - $550-600 billion
- Challenge of intermediation
  - Insurance companies, pension funds, infrastructure funds
  - Debt, equity and mezzanine finance
- Need for long term funding – IDFC, IIFCL (Last mile/ Take Out Financing) & Infrastructure Debt Funds
- External Funding
  - Multi-lateral / Bi-lateral credit, ECBs, Bonds
  - Managing forex risk – infra revenues largely in rupees

- Financing not the biggest challenge – the challenge is financeability – good projects find funding
The Capacity Challenge

• Government – in preparing for these volumes of investment
  – both public and private

• Private Sector
  – Contractors – experience in smaller projects to handling larger contracts
  – Contractors to developers – change in mindset
  – Consultants
  – Bankers and financial investors

• Key Project Resources
  – Engineers (especially civil engineers)
  – Skilled work force
  – Material inputs – natural resources – coal, O&G, aggregate
Enablers for Private Investment

• Stable policy & regulatory framework
• Long term strategy/ plan for the sector
• Adequate project development – capacity to develop projects of requisite scale
• Equitable contractual framework
• Transparent selection process
• Reliable revenue sources
• Partnership in practice – managing unexpected events
• Political will
Policy & Regulatory Frameworks, Incentives & Concessions
**Investor Comforts & Incentives**

1. Fiscal Benefits - Tax holiday of 100% for 10 years in a block of 20 years
2. Viability gap funding of up to 40% of the cost of the project – as a grant
3. Foreign Direct Investment – 74 to 100% of the equity permitted
4. Duty free import of high capacity & modern construction equipment
5. Long Concession periods – up to 30 years
### Foreign Direct Investment

<table>
<thead>
<tr>
<th>Sector</th>
<th>Limit</th>
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<tbody>
<tr>
<td>Airports</td>
<td>Up to 100%, with FDI beyond 74% requiring Government approval</td>
</tr>
<tr>
<td>Hotels &amp; Tourism</td>
<td>100% FDI is permissible in the sector through the automatic route</td>
</tr>
<tr>
<td>Housing &amp; Real Estate</td>
<td>Construction - 100% (If developed area exceeds 50,000 sq metres)</td>
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<tr>
<td></td>
<td>Housing - 100% (If area exceeds 25 acres)</td>
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<tr>
<td>Power</td>
<td>Up to 100%, FDI allowed in respect of projects relating to electricity generation, transmission and distribution, other than atomic reactor power plants</td>
</tr>
<tr>
<td>Roads &amp; Highways, Ports &amp; Harbours</td>
<td>100% FDI is permissible in the sector through the automatic route in both construction and maintenance</td>
</tr>
<tr>
<td>Telecommunication</td>
<td>74% FDI is permissible in the sector through the automatic route</td>
</tr>
</tbody>
</table>

Source: Investing in India-FDI Manual, DIPP

- Real Estate Opportunity
- Captive Power
Viability Gap Funding (VGF)

1. To make infrastructure projects financially viable in order to attract private capital
2. Revolving fund within Ministry of Finance
3. Specified process for obtaining VGF
4. Project gets the fund during implementation
5. In the form of grant - up to a maximum of 40% of Total Project Cost – with Central Government grant not exceeding 20% and State Government component not exceeding a further 20%
6. Utilization - monitored by Ministry of Finance
Viability Gap Funding (VGF)

CRITERIA FOR AVOIDING VGF

1. PPP projects only

2. Project implementation by Private Sector Company

3. Private Sector Company to be selected through open competitive bidding

4. Bid criteria: Amount of VGF required by Private Sector Company

5. Project based on contract or concession agreement

6. Service to be rendered on payment at a pre-determined tariff or user charge
Viability Gap Funding (VGF)

ELIGIBLE SECTORS

1. Roads and bridges, railways, seaports, airports, inland waterways

2. Power

3. Urban transport, water supply, sewerage, solid waste management and other urban infrastructure

4. Infrastructure projects in SEZ

5. International convention centres and other tourism infrastructure projects
Viability Gap Funding (VGF)

DISBURSAL AND MONITORING

1. Equivalent to lowest bid for capital subsidy, subject to a maximum of 20% of the project cost
2. Capital grant at the stage of project construction
3. A Tripartite Agreement between Government, Lead Financial Institution (LFI) and Private Sector Company
4. Disbursed after Private partner has subscribed and expended its equity
5. Released in proportion to debt disbursements remaining to be disbursed thereafter
6. Released to LFI - monitor the project compliance for the purpose of disbursing the VGF
7. Duty of LFI to send progress reports to Government
India Infrastructure Project Development Fund (IIPDF)

1. Set up by Government of India (MoF)
2. Initial corpus - Rs. 1 billion
3. Objective to assist states & encourage PPPs
4. Upto 75% of development costs
5. IIPDF replenished by the successful bidder in case of successfully bid projects
6. Topped up with budget support
7. If bid unsuccessful – interest-free loan
Case Study: National Highways

- Programmatic approach - predictability
- Tolling of National Highways – where expanded/ improved
- Uniform tolling – across the country
- Adjusted to WPI
- Central Road Fund – viability gap payment
- No sector regulator – regulation by contract
- Model concession document – sets out long term framework
- Capacity expansion – clauses modified
Capacity Building
Capacity Building Initiatives

• National Panel of Transaction Advisers – GAs can select from this panel through a limited bid process
• PPP cells in states and central ministries (PPP/ Finance/ MIS experts) – identification & development support; ongoing knowledge sharing workshops
• National PPP Capacity Building Programme
• Online Resources – PPP Toolkit
Key Elements of the National PPP Capacity Building Programme
NPCBP - COVERAGE

15 Administrative Training Institutes (ATIs)

Assam
Bihar
Orissa
Rajasthan
Uttarakhand
Maharashtra
Delhi
Karnataka

Andhra Pradesh
Himachal Pradesh
Gujarat
Madhya Pradesh
West Bengal
Haryana
Punjab

2 Central Training Institutes (CTIs)
LBS National Academy of Administration
Indian Maritime University
TRAINING NEEDS ASSESSMENT

CURRICULUM DESIGN AND CONTENT DEVELOPMENT

TRAINING OF TRAINERS

NATIONAL ROLL OUT

PROGRAMME COMPONENTS
The Course Content developed follows a PROJECT LIFE CYCLE APPROACH:

- **Project Identification and Preparation**
  - Need analysis
  - Project identification
  - Organization for project management
  - Hiring Transaction Advisors

- **Project analysis and structuring**
  - Financial analysis and assessment of project viability
  - Scoping, choice of Form of PPP, financial structure, risk
  - Allocation structure, duration etc.

- **Tendering and Contracting**
  - Criteria for choosing private partner
  - Inviting bids and choosing suitable Private partner
  - Developing and signing contracts

- **Implementation and Monitoring**
  - Contract management
  - Periodic monitoring & ensuring project outcomes
  - Managing variations
  - Conflict management

This has formed the basis for development of modules and sequencing of lesson plans.

Modules developed cover all aspects of PPPs from project ideation to implementation.
In order for the programmes to be meaningful to such a varied audience, a diverse menu of courses has been developed under the programme.

5 types of courses are being offered

<table>
<thead>
<tr>
<th>COURSE TYPE</th>
<th>DURATION</th>
<th>TARGET AUDIENCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>AWARENESS COURSE</td>
<td>1 day</td>
<td>Elected representatives, representatives of Civil Society, NGOs and Media</td>
</tr>
<tr>
<td>SENSITIZATION COURSE</td>
<td>2 days</td>
<td>Officials with little or no prior experience of PPPs and who have time constraints</td>
</tr>
<tr>
<td>BASIC COURSE</td>
<td>4-5 days</td>
<td>Officials with little or no prior experience of PPPs and who can spare more time for the courses</td>
</tr>
<tr>
<td>ADVANCED COURSE</td>
<td>6-9 days</td>
<td>Open to all officials involved with or likely to engage intensively with PPPs. Officials with prior experience or those who have attended the basic course would be preferred.</td>
</tr>
<tr>
<td>COURSE FOR SENIOR DECISION MAKERS</td>
<td>2 days</td>
<td>Senior Level Government Officers</td>
</tr>
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TYPES OF COURSES
CERTIFICATION PROCESS

LEVEL 1
- Trainers will be given Level 1 certification upon successful completion of the 2-week classroom-based Training of Trainers programme.

LEVEL 2
- Trainers will then be expected to conduct 1 programme at their respective ATIs.
- Master trainers will attend their sessions and Level 2 certification will be awarded.

LEVEL 3
- Select trainers found to have exceptional aptitude in specific subjects will be given Level 3 certification as certified national resource on those particular subject areas in PPP.
Current Status

- First 3 stages of the programme completed – currently being rolled out in 14 institutions
- Programme material released by the Finance Minister in December 2010
- Over 150 trainers have been trained across the country; over 10% have attained Level 2 Certification
- Of the targeted 10,000 officials to be trained, over 3500 have already been trained
- Mainstreamed into the civil services training – induction & in-service training
- Curriculum review and upgradation – periodical workshops
Bidding & Contracting Frameworks
Open bidding & equitable contracts

• Standard two stage bidding process
• Model bid documents
• Some states have moved to e-tendering and auction
• Model contracts – national/ state highways, urban rail systems, ports, airports
• Approvals in place before tendering to extent possible
• Land acquisition, environment clearance and R&R issues - Government responsibility
Political Commitment
Government support

- Changing political formations, unchanging support for PPPs
- Draft National PPP Policy & Rules - under discussion; several states have legislation
- Standardised approval processes
- Institutional support - National Board to facilitate clearances and facilitate effective monitoring
- Independent regulation – telecom, airports, power, ports (tariff) or regulation through contract (roads, urban services)
- Long term financing agencies
Draft PPP Policy

- Formalise PPPs as the preferred implementation option where there is a track record
- Encourage transparency – disclosures, dispute management
- PPP rules – procurement process and handling key provisions in contracts
- Auctioning – natural resources
- Smooth implementation for inter-dependent projects
Institutional Architecture

• Institutional structure – PPP cells at Central and State levels
• Decision making – PPP Appraisal Committee
• Government Audits – to only cover the public entity
• Regulatory mechanisms – independent regulation at sector or multi-sector level; where none – through the contract
Thank you for your kind attention

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