# Public Private Partnerships in Infrastructure: A Paradigm Shift

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## Importance of infrastructure for the Indian economy

India is the world's fourth largest economy, based on purchasing power parity, and among the fastest growing. It has grown at over 7.6% per annum for the last two years and is poised to grow at 8% per annum in the years to come, thanks to the policies of economic liberalisation pursued by the government. This robust growth has placed an increasing stress on the physical infrastructure such as power, roads, ports, airports and railways, which were already carrying a significant deficit from the past. There is consensus that the on-going growth in the manufacturing and service sectors would be constrained if infrastructure services do not keep pace. The government is, therefore, committed to building world-class infrastructure for improving the quality of life and enhancing competitiveness of the economy.

The financing requirements of infrastructure are so large that no amount of resource mobilisation within the public sector can meet this challenge. Recourse to private capital is, therefore, inevitable for sustaining the growth momentum. In addition, private participation is expected to usher efficiency gains and reduction in costs. As such, the government looks upon Public Private Partnerships (PPPs) for addressing many of these imperatives, and this has led to a paradigm shift in favour of PPPs.

The government has initiated concerted measures for creating an enabling policy and regulatory environment that would attract the requisite levels of private investment. This includes well-designed PPP frameworks coupled with financial and fiscal support. We expect that well structured PPPs would help marry private sector's management skills, financing flexibility, designing capabilities, innovation and technology, with the government's role in managing land acquisition, environmental clearances, inflation, change in law etc. The new framework would also facilitate greater transparency and accountability with reduced transaction costs. This should mean a win-win situation for all stakeholders, public and private.

**Committee on Infrastructure**

For ensuring that the above objectives are fulfilled, the Prime Minister of India, Dr. Manmohan Singh, has constituted a Committee on Infrastructure, under his chairmanship, for steering the transition to an enabling policy and regulatory environment. The Committee includes the Finance Minister, the Deputy Chairman of the Planning Commission and the Ministers in-charge of the respective infrastructure Ministries. The Committee has met frequently during the past one year and has made a remarkable difference to the pace of decision-making and implementation.

**National Highways Development Programme**

For a country of India's size, an efficient road network is necessary both for national integration as well as for socio-economic development. The National Highways (NH), with a total length of 65,569 km, serve as the arterial network across the country. The ongoing programme of four-laning the 5,900 km long Golden Quadrilateral (GQ) connecting Delhi, Mumbai, Chennai and Kolkata is nearing completion. The ongoing four-laning of the 7,300 km North-South East-West (NSEW) corridor is to be completed by December 2009. These programmes include several PPP projects.

The Committee on Infrastructure has since approved an expanded programme for the next seven years (2005-12), largely relying on PPPs for mobilising the requisite capital and implementation capabilities. It includes six-laning of 6,500 km of four-lane highways in the Golden Quadrilateral and other select sections, four-laning of 10,000 km on other sections with high traffic intensity, and two-laning of 20,000 km in the remaining segments. Development of 1,000 km of new expressways is also to be undertaken, besides construction of bypasses, ring roads and grade separators where necessary. The expanded programme envisages an investment of about US$ 40 billion.

In order to specify the policy and regulatory framework on a fair and transparent basis, the Committee on Infrastructure had mandated the formulation of a Model Concession Agreement (MCA) for PPPs in national highways. After a great deal of expert involvement coupled with extensive dialogue with the stakeholders including prospective investors, lenders and multilateral institutions, the MCA was finalised recently and approved by the Committee. The framework contained in the MCA is comprehensive and based on internationally accepted principles and best practices. The MCA unbundles risks and costs, and allocates them to the party best suited to manage them. Throughout, it seeks to achieve a reasonable balance between risks and rewards for all participants. The predictability of costs and obligations will be a key factor in improving efficiencies and reducing costs. Projects would be awarded on the basis of a competitively bid capital subsidy, if needed.

Steps are being taken for restructuring and strengthening of National Highways Authority of India (NHAI), which is the implementing agency for this programme. Institutional mechanisms have been established to address bottlenecks arising from delays in environmental clearance, land acquisition etc. A special focus is being provided for traffic management and safety related issues through the proposed Directorate of Safety and Traffic Management. It is expected that the sum total of these initiatives should be able to deliver an efficient and safe highway network across the country.

**Airports**

The Committee on Infrastructure has initiated several policy measures that would ensure time-bound creation of world-class airports in India. A comprehensive civil aviation policy is on the anvil. An independent Airports Regulatory Authority Bill for economic regulation is also under consideration. The policy of open skies introduced some time ago has already provided a powerful spurt in traffic growth that has exceeded 20% per annum during the past two years.

The Airports Authority of India Act, 1994, has been amended to permit private sector participation in the development of airports. Green field international airports at Bangalore and Hyderabad are currently under construction, with 74% private equity. Modernisation and expansion of the Delhi and Mumbai airports through PPPs is in the final stages of bid evaluation and award. There has been significant international investor interest in these transactions. Other major airports such as Chennai are also proposed to be taken up through the PPP route. These measures are expected to bring a total investment of US$ 9 billion for modernization of the airport infrastructure.

On the analogy of the highway sector, a Model Concession Agreement is also being developed for standardising and simplifying the PPP transactions for airports. Further, proposals for revamping the Airports Authority of India are to be finalized soon. This would include upgrading of the ATC services at the airports.

**Ports**

The experience of operating berths through PPPs at the major ports in India has been quite successful. The Committee on Infrastructure has, therefore, decided that all new berths would be constructed through PPPs and a model concession agreement is being formulated for this purpose.

Government has also decided to empower and enable the 12 Major Ports to attain world-class standards. To this end, each Port is preparing a perspective plan for 20 years and a business plan for seven years. International experts have been engaged for assisting the Ports in this exercise, which is likely to be completed by April 2006. Recognising that the shipping industry is moving towards large vessels, a plan for capital dredging of major ports has also been initiated for implementation.

A high level committee has finalised the plan for improving rail-road connectivity of major ports. The plan is to be implemented within a period of three years. Further, changes in customs procedures are being carried out with a view to reducing the dwell time and transaction costs. The government has also delegated enhanced powers to the respective Port Trusts for facilitating speedier decision-making and implementation. These measures are expected to bring a total investment of US$ 12 billion in the port infrastructure.

**Railways**

With increasing containerization of cargo, the demand for its movement by rail has grown rapidly. So far, container movement by rail was the monopoly of a public sector entity, CONCOR. Beginning 2006, container movement has been thrown open to competition and private sector entities would be eligible for owning and operating container trains.

The rapid rise in international trade and domestic cargo has placed a great strain on the Delhi-Mumbai and Delhi-Kolkata rail track. Government has, therefore, decided to build a dedicated freight corridor on these high-density routes. The investment is expected to exceed US$ 5 billion. Requisite surveys and project reports are in progress and work is expected to commence within a year. The dedicated freight corridor would be constructed, operated and maintained by a corporate entity on commercial principles. Financing would be arranged from budgetary resources, external debt and domestic borrowings.

The approach to be adopted for the dedicated freight corridor would herald the ownership and operation of a large number of freight trains by competing private entities – a phenomenon that has only begun in Europe. It is expected that the proposed separation of rail from wheels would initiate a paradigm shift in the functioning of Indian railways.

**Scheme for financial support to PPP in infrastructure**

Several infrastructure projects, despite being economically viable, are financially unviable. The lack of financial viability usually arises from long gestation periods and limited financial returns, often caused by the inability to increase user charges to commercial levels. The government is committed to supporting such projects by providing a viability gap grant. Under a scheme approved recently, projects in infrastructure sectors such as power, roads, ports, airports, railways, water supply and urban transport will be eligible for a viability gap grant.

The projects will be prepared by government and local authorities, and bids would be invited based on pre-approved concession agreements and project specifications. The sponsors would be selected through competitive bidding for the minimum capital grant, and would be eligible for up to 20% of the total project cost to be provided by the Finance Ministry. Apart from this, an additional grant of up to 20% can be provided by the sponsoring Ministry. In the current year's budget, the government has earmarked a provision of about US$ 350 million for viability gap funding.

## Special Purpose Vehicle for infrastructure finance

A Special Purpose Vehicle (SPV), called the India Infrastructure Finance Corporation Limited (IIFC) is also being set up to lend funds with longer term maturity to commercially viable projects in infrastructure sectors, including projects which become viable after receiving viability gap funding from the government. The purpose is to supplement the loans from banks and financial institutions, which are currently deficient in providing long-term debt.

IIFC will provide financial assistance through long term debt; either by way of refinance to banks and financial institutions or by direct lending to the project companies. It will rely on the lead bank for appraisal and lending operations associated with the respective projects. IIFC will raise funds from domestic and external markets on the strength of government guarantees, which will be extended as necessary. In the first year of its operation, a guarantee limit of Rs. 10,000 crore (US$ 2.2 billion) has been specified by the government.

The twin schemes for viability gap funding and long-term debt to infrastructure projects are an effort to address the critical gaps in private sector financing of infrastructure. Through this package, the government aims at leveraging scarce budgetary resources for attracting a large pool of private capital.

## Conclusion

I have highlighted some of the major initiatives of the Government of India in pursuit of an accelerated growth of infrastructure development across sectors. The success story of Indian telecom is well known. Private investment and competition have transformed the face of telephony in India during the past five years. We hope that competitive private participation in the other infrastructure sectors would also bring quantum improvements in the near future.