Understanding Public Private Partnerships

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Presentation Structure

- PPP – The Concept
- International Experience with PPPs
- India's Infrastructure crisis.
- Indian Policy Framework for PPPs
- PPP – The Process
- Model Concession Agreement (MCA)
- Overview of the Power Sector
- Case Studies

PPP – The Concept

What is PPP?

Provision of a public service or good by a private partner who has been conceded the right (the "Concession") *for the purpose* for a specified period of time *on the basis of pre-determined revenue stream/s that allow* for commercial return *on investment/market-determined management fee*

What is PPP (contd.)

- Private sector involvement in building infrastructure assets and in providing services derived from those assets.
- PPP contracts that stress long-term service delivery rather than asset creation.
- Services which can be provided to the government or directly to final consumers.

What it is NOT

It is not:

- Putting public investment in private infrastructure
- Putting private investment in private infrastructure
- Putting private investment in other than providing a *public service or good*

What PPP is Not

- PPP is not a method for transferring responsibility from the government to the private sector.
  - Citizens will and should continue to hold government accountable
  - Government cannot use non-performance of private sector as an excuse for failure in service delivery.
- PPP is not just about private financing
  - Only two sources of revenue
    - TAXES
    - USER FEES

Value for money arguments

- Competition
  - Increase efficiency
  - Maximize innovation
  - Import global best practice
- Risk transfer
  - Private sector takes performance risk (i.e. cost, schedule, service levels)
- Lifecycle perspective
  - Integrate project's D, B, F, O & M phases & optimize lifecycle cost
  - Reserve for future maintenance costs

PPP is not:

- New Money
- Privatization

= Value for Money!

= Direct, material benefit to society!!

… eventually opposition goes away!!!

Source: David Livingston, Infrastructure Ontario

WHY PPPs

- ACCESS TO CAPITAL
- CERTAINTY OF OUTCOME
- OFF BALANCE SHEET BORROWING
- INNOVATION/ BETTER TECHNOLOGY
- TRANSFER OF RISK
- VALUE FOR MONEY
- ADDITIONALITY PRINCIPLE
- PLUGGING THE INFRASTRUCTURE DEFICIT

WHY PPPs ?

- IMPROVE ASSET CREATION EFFICIENCY
- IMPROVE ASSET MANAGEMENT EFFICIENCY
- IMPROVE SERVICE DELIVERY EFFECTIVENESS
- INCREASE ACCOUNTABILITY AND AUTONOMY

PPP – Expansion of Definitions, Concepts

- *PPP is a division of labour between the government and the private sector across policy spheres and specific collaboration on particular policy projects.*

- *Advocates promote PPP as the epitome of a new generation of public sector reforms and an economic imperative for efficiency, quality.*

Definitions PPP

- Brazil “PPP contracts are entered into between government/public entities and private entities that establish a legally binding obligation to manage(in whole or in part) services and activities in the public interest where the private sector is responsible for financing,investment and management.”

Definitions contd….

- Private participation in infrastructure has had many labels/nomenclatures in the past
- Commonly used labels are Private Finance Initiative (PFI),PPP,P3,Alternative Financing &Procurement (AFP), PSP-Private Sector Participation etc
- Core concepts remain the same despite differences in labels

Generic Definition

- “PPP is a long term contractual arrangement between the public and the private sector where mutual benefits are sought and where the private sector provides operating services and/or puts private finance at risk.”

  – Garvin and Bosso(2008)

PPP– Concepts,Meanings….

- PPP is often seen as a derivative of the privatisation movement
- Some view it as a joint venture which spreads financial risks between the public and private sector
- PPPs often appear as a euphemism for privatising the functions of the government without compromising its legitimacy

Interviews

Interviews: Heads of PPP units talking about the role of PPP's in their countries.

http://info.worldbank.org/etools/PPPI-Portal/2007PPPI/interview.htm

PPP CHALLENGES

- NEW SKILL SETS
- NEW INSTITUTIONS
- CONFLICT OF INTERESTS
- TRANSPARENCY AND ACCOUNTABILITY ISSUES

FACTORS IMPACTING PPP AGREEMENTS

- The sector to which PPP relates and its amenability for commercialisation
- Legal, policy and regulatory framework
- Location ,project design, risks,environmental and social issues
- Rigorous project preparation
- Sensitisation of all stakeholders
- Shift in the mindset of Government

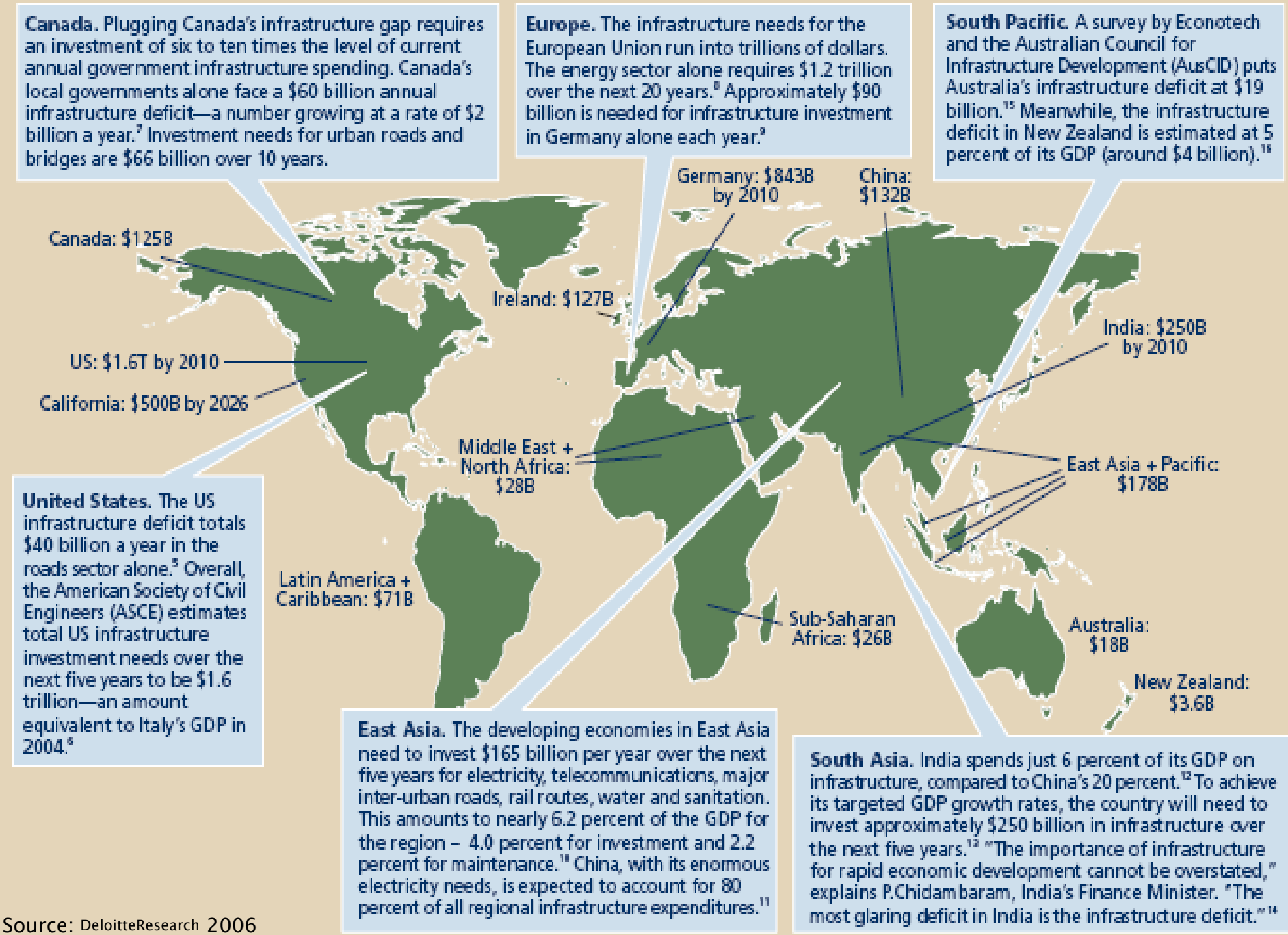
What areas are relevant for PPP?

- Areas where Outcomes can be measured relatively precisely
  - Roads are a good example
  - Health is a poor example
- Areas with Long-term Relationships
  - Short term service contracts are a minor form of PPP
- Areas where Private Sector has more operational flexibility
  - Design Flexibility?
- Areas where profit incentives can be aligned with the public purpose

UK Case Study

	Conventional procurement	PPP procurement
Cost overruns for the public sector	73%	22%
Delay in project delivery	70%	24%

Figure 1. Projected Infrastructure Investment Needs



Source: DeloitteResearch 2006

Advantage of PPP vs Normal Procurement

- Cost of project shared with private developer
- Maintenance risk transferred to private partner
- Underlying ownership of assets continue to vests with Government
- Better Quality Infrastructure
- Part of toll revenue accrue to Government
- Traffic growth to result in increased revenue on account of additional sale of Petrol/Diesel
- Economic and Social development of region
- Inflow of industrial investment

International Experience

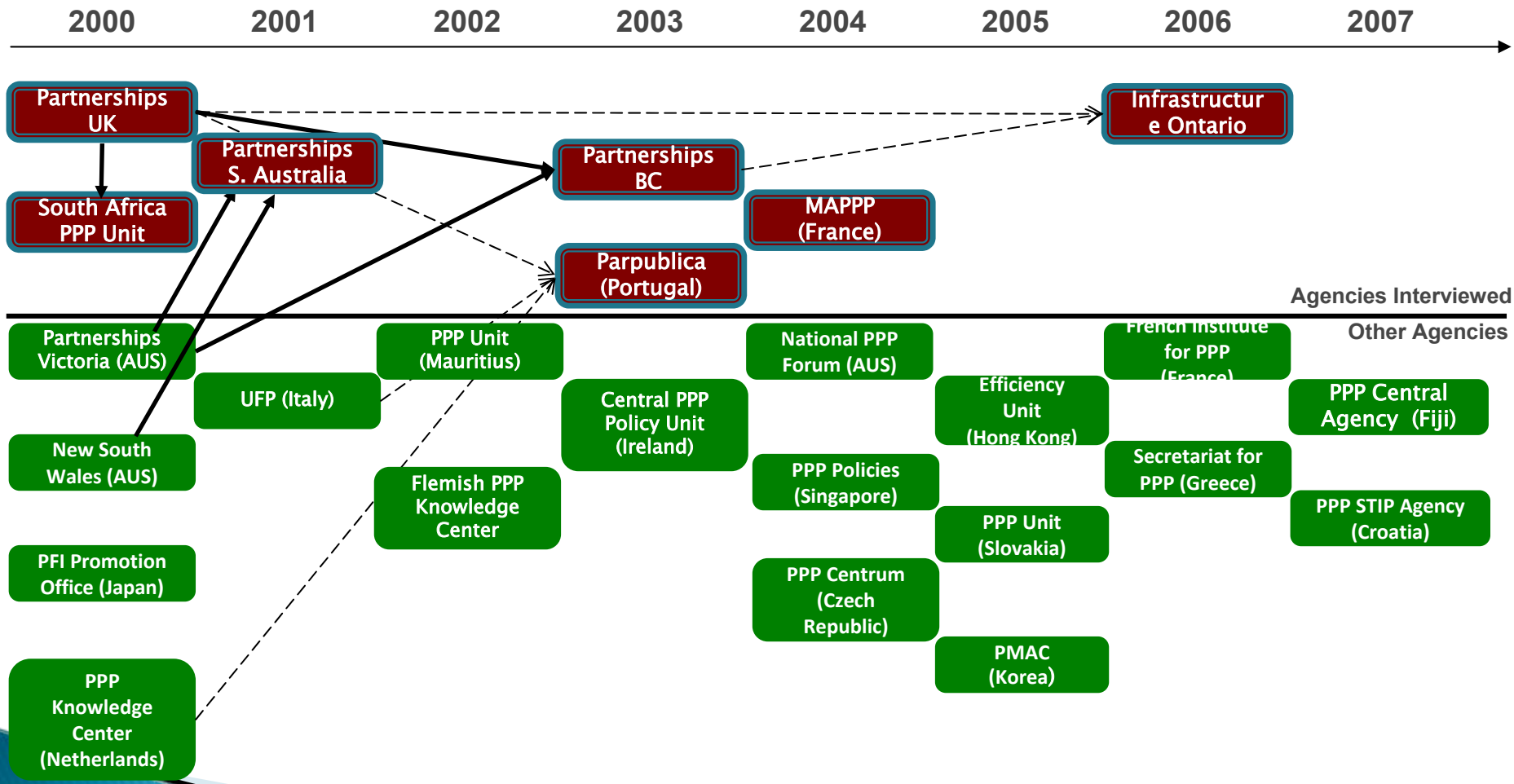
Source: PPIAF, World Bank

PPP AGENCIES WORLDWIDE

- About 30 nation states actively pursuing the PPP model. India one of them
- Around 45 agencies set up to deliver /oversee ppp contracts
- Prominent agencies

-Infrastructure ontario (Canada)
-MAPPP(France)
-Parpublica PPP(Portugal)
-Partnerships BC
-Partnerships UK
-PIMAC S Korea

Global Diffusion of the PPP Agency Model*



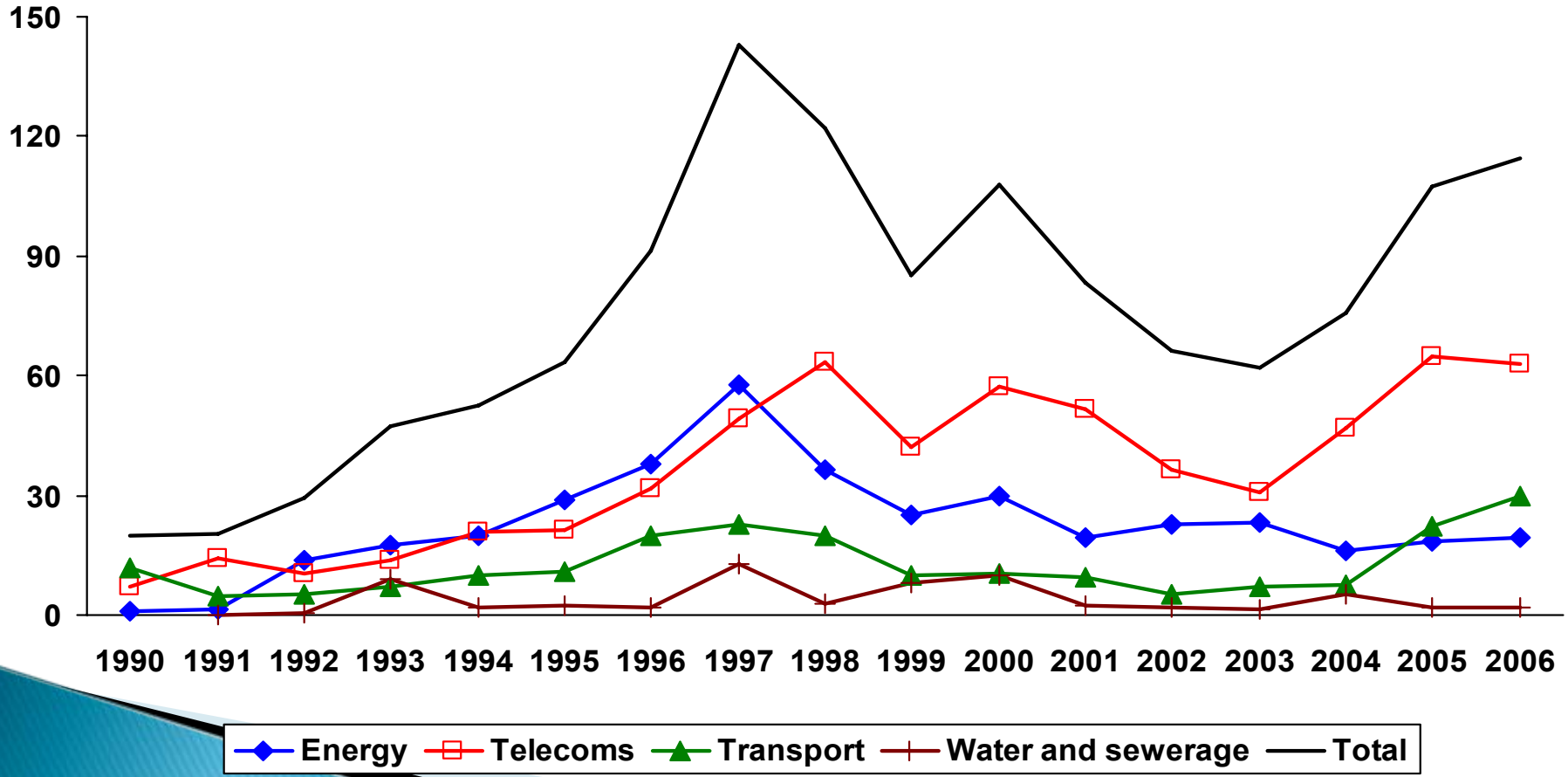
Legend:
- Dotted line – Consulted with Agency
- Solid line – Modeled after Agency

*Note – work in progress

Approximate Size of Various Programs

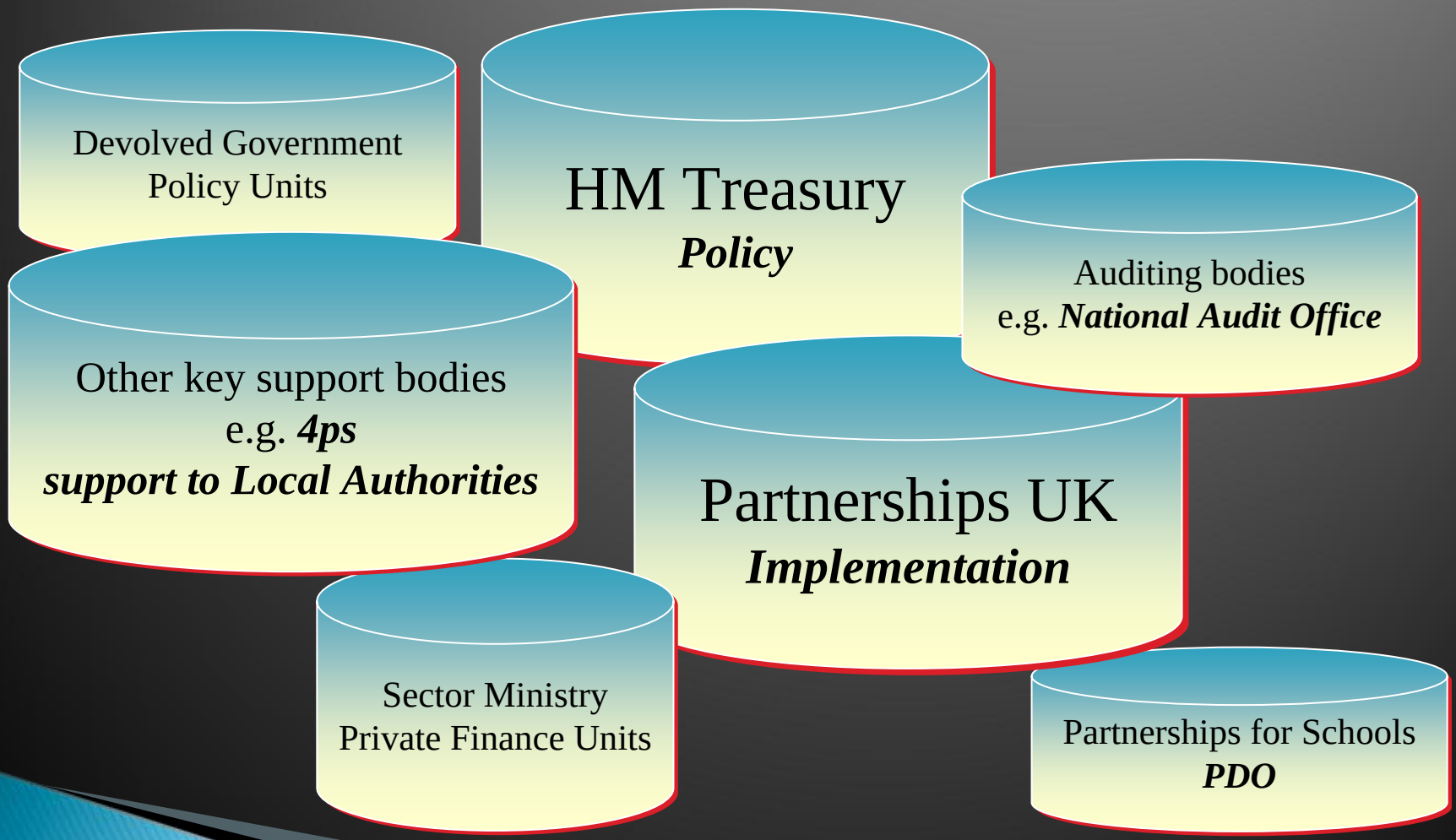
	Value of Deals ($B)	Number of Deals
UK Highways Agency	**$158.0**	**846**
Infrastructure Ontario	**≥$6.0**	**40+**
MAPPP	**$5.8**	**147**
Parpublica	**$10.2**	**49**
Partnerships BC	**$4.5**	**23**
Partnerships Victoria	**$5.5**	**17**
Partnerships UK	**$61.7**	**450**
South Africa PPP Unit	**$4.5**	**18**
Total	$256.2	1590

INVESTMENT COMMITMENTS TO PPI PROJECTS IN DEVELOPING COUNTRIES BY SECTOR, 1990–2006

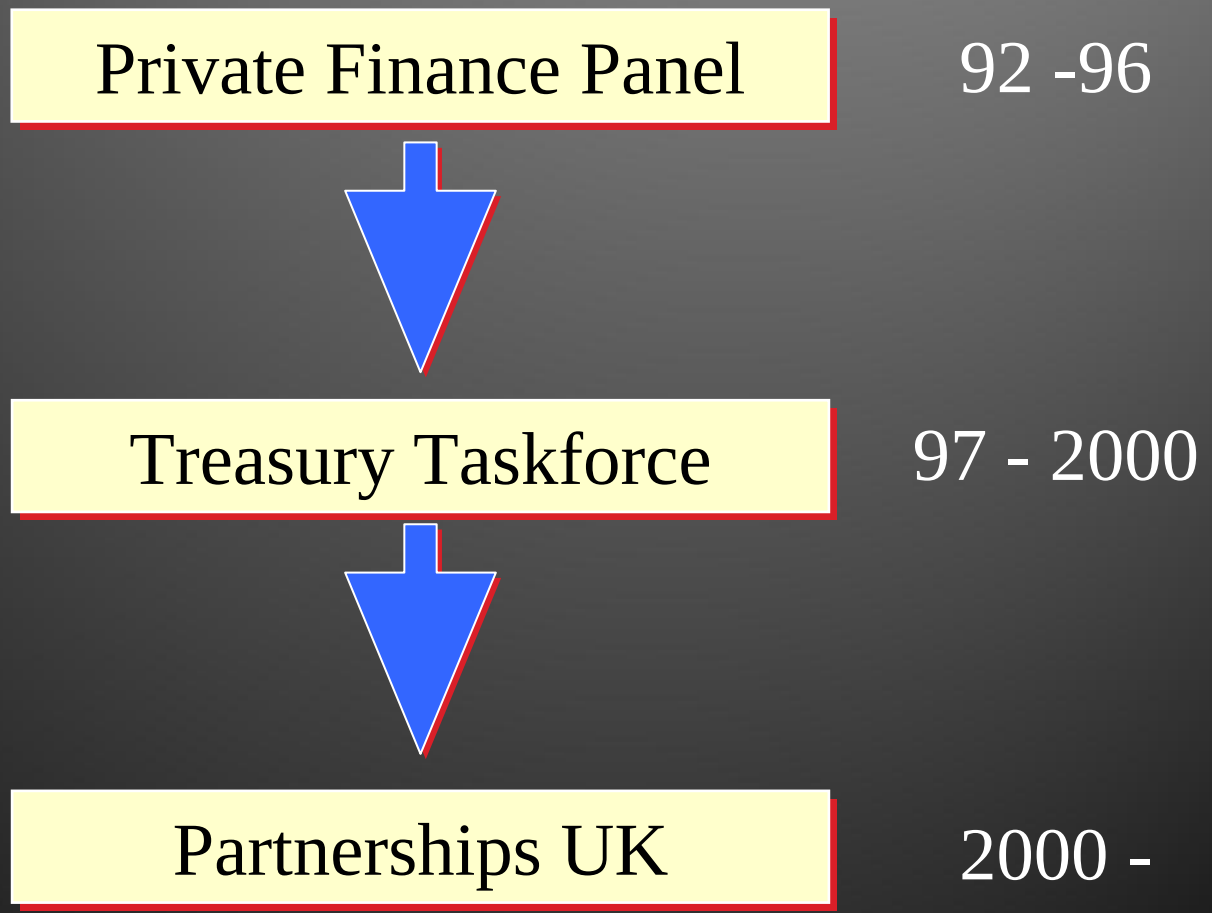


UK

UK Public Sector PPP Institutions



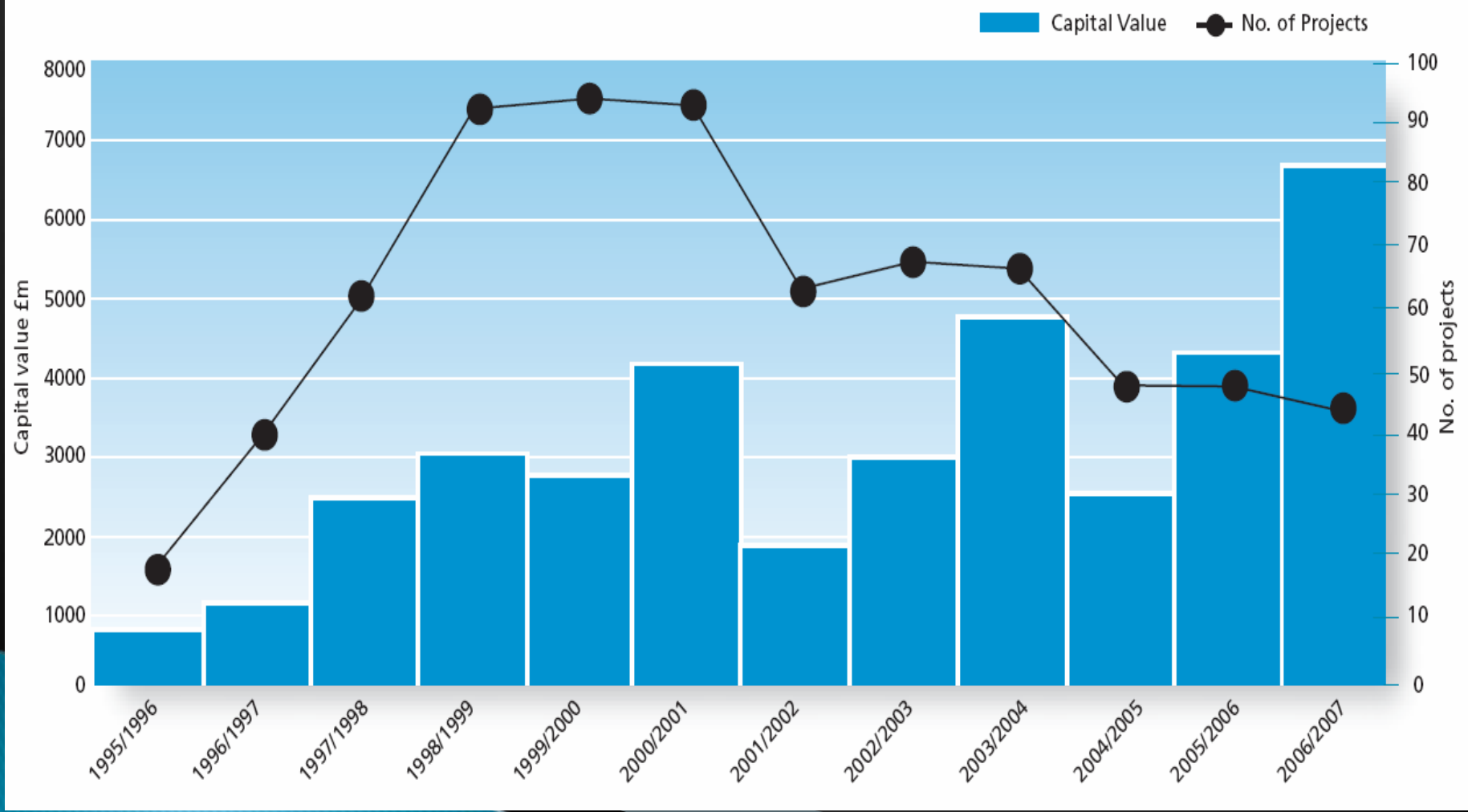
Evolution of PUK



UK PFI Programme Development

893 projects, £78bn capital value, of which 687 now operational

Chart 1: size of overall market since 1995/96.



PPP Units

Unit within a Government ministry	Separate publicly owned agency	Public/private body
➢Partnerships Victoria ➢Mission D'Appui aux PPP -MAPP (France) ➢S Africa Treasury PPP Unit ➢Singapore Ministry of Finance PPP Unit ➢Unita Tecnica, Italian Treasury ➢Unitatea Centrale, MoF Romania ➢PPS Unit, SHCP, Mexico	➢Partnerships British Columbia, ➢Infrastructure Ontario ➢Parpublica, Portugal	➢Partnerships UK

Resources

- Approx 70+ specialists: mid to late career level
- Specialists in
  - Procurement
  - Project management
  - Law/contracts
  - Finance: project finance, equity
  - Public accounting
  - Commercialisation of public assets
  - Sectors: transport, health, education, housing, property, defence, waste, water, ITC, high technology
- Drawn from private, public and third sectors



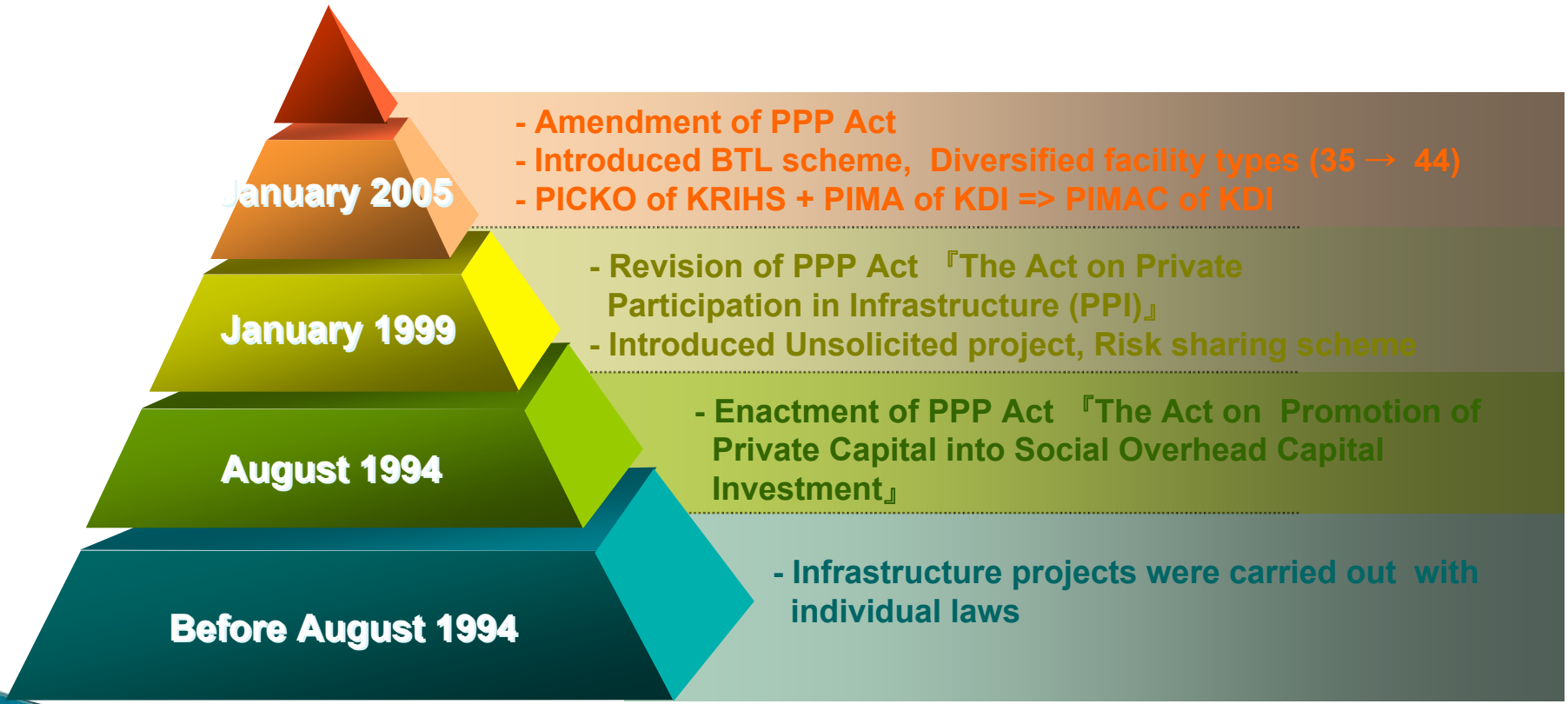
West Middlesex Hospital

UK PRISONS- VIDEO



South Korea

History of PPP Act



Legal Framework of the PPP System

- Hierarchy of legal and administrative framework of PPP System
  - **PPP Act**
    - PPP Act Enforcement Decrees
      - Annual PPP Plan
        - PPP Guidelines

- The Legal Status of the PPP Act
  - **The PPP Act** and **the PPP Act Enforcement Decrees** are the principal components of the legal framework of PPP
  - The Act is a special Act that precedes other Acts
  - Exempts PPP projects from strict regulation in national property management
  - Allows a SPC to play a role of competent authority

- The PPP Act directs the MOSF and PIMAC to issue an **Annual PPP Plan** that provides detailed and practical guidelines for implementing PPP projects
  - The yearly focus of PPP policy
  - Details in PPP project implementation procedure
  - Financing and re-financing guideline
  - Risk allocation/ Minimum revenue guarantee
  - Payment of government subsidy
  - Documentation direction

- PIMAC has developed **PPP Guidelines** to deliver transparency and objectivity in PPP project implementation
  - Guidelines for VfM test
  - Guidelines for RFP preparation
  - Standard output specification by facility (school, military housing, integrated school facility)
  - Guidelines for tender evaluation
  - Standard PPP concession agreements
  - Guidelines for BTL project management

Government Support (2) : MRG

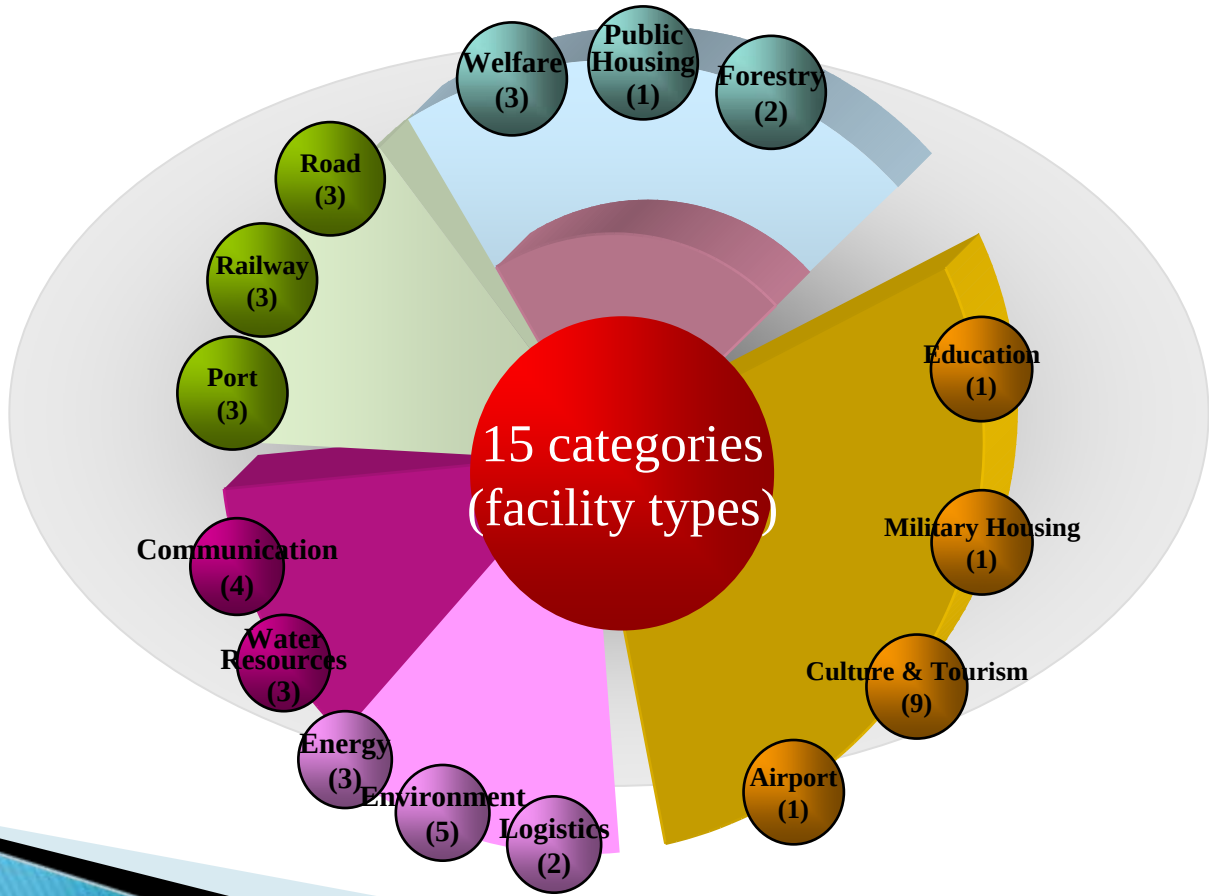
- A certain fraction of projected annual revenues may be guaranteed when the actual operating revenue falls considerably short of the projected revenue prescribed in the contract
  - Applicable only to solicited projects
  - Not applicable to projects that earn less than 50% of projected revenue

Profile of Minimum Revenue Guarantee

	Jan 1999		May 2003	January 2006	
	Solicited	Unsolicited		Solicited	Unsolicited
Period	Whole operating period		15 Years	10 Years	Abolished
Guarantee Level (Max)	90%	80%	First 5 Years 90% Next 5 Years 80% Last 5 Years 70%	First 5 Years 75% Next 5 Years 65%	
Condition	None		No MRG applied if Actual Revenue < 50% of Forecasted Revenue	Same as Left	

PPP Facility Types

44 types of facilities in 15 categories are eligible for PPP



Project Initiation

- Solicited Projects
  - A solicited project is that the competent authority identifies a project for private investment and announces a RFP

- Unsolicited Projects
  - For an unsolicited project, a private company (project proponent) submits a project proposal, and then the competent authority examines and designates it as a PPP project

Indian Infrastructure

An Overview

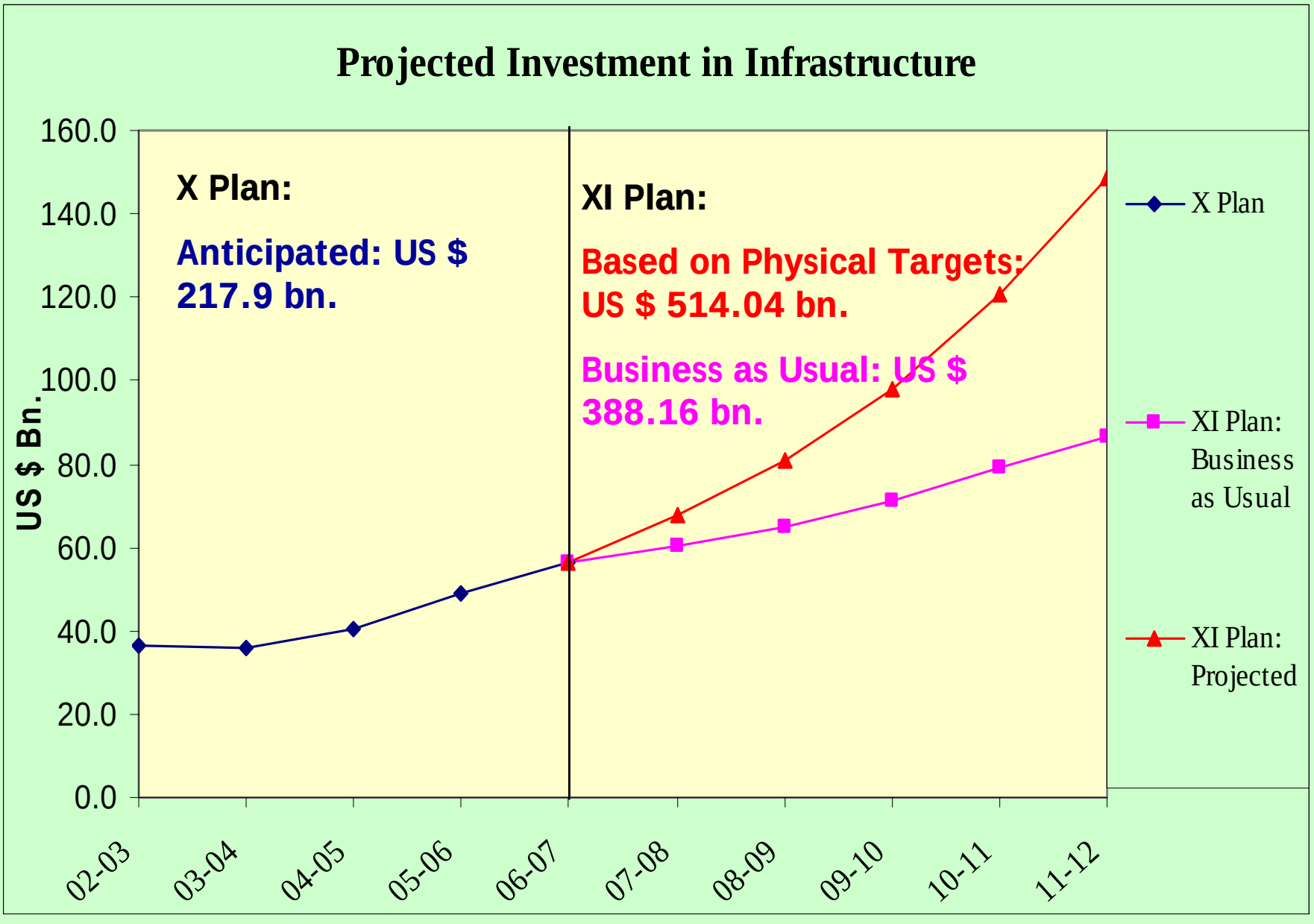
10th Plan vs 11th Plan

- Infrastructure investment @5% of the GDP in X th Plan (2002-07)
- In rupee terms the Xth plan investment was for Rs 8,87,794 crores ($ 222 billion)
- Infra investment for XI Plan projected at @9% of the GDP (2007-12)
- In rupee terms this works out to Rs 20,56,150 crores($ 514 billion)

INFRASTRUCTURE DEFICIT

- **Highways**
  - 66,590 Km of NH (2% of network, 40% of traffic): only 12% Four-lane; 50% Two-lane; and 38% Single-lane
- **Ports**
  - Inadequate berths, rail / road connectivity and draft are constraints
- **Airports**
  - Inadequate capacity: Runways, aircraft handling capacity, parking space & terminal buildings
- **Railways**
  - Old technology; saturated routes: slow average speeds (freight: 22 kmph; passengers: 50 kmph); low payload to Tare ratio (2.5)
- **Power**
  - 16.6% peaking deficit and 9.8% energy shortage; 40% T&D losses; absence of competition; and inadequate private investment

SCALE OF THE CHALLENGE



PROJECTED INVESTMENT IN INFRASTRUCTURE

	X Plan		XI Plan	
Sectors	**US $ billion**	**Share (%)**	**US $ billion**	**Share (%)**
Electricity (incl. NCE)	72.96	33.49	166.63	32.42
Roads and Bridges	36.22	16.63	78.54	15.28
Telecommunication	25.84	11.86	64.61	12.57
Railways (incl. MRTS)	29.91	13.73	65.45	12.73
Irrigation (incl. Watershed)	27.88	12.80	63.33	12.32
Water Supply and Sanitation	16.20	7.44	35.93	6.99
Ports	3.52	1.61	22.00	4.28
Airports	1.69	0.78	7.74	1.51
Storage	1.20	0.55	5.59	1.09
Gas	2.43	1.11	4.21	0.82
Total US $ billion	**217.86**	**100**	**514.04**	**100**
Rs. crore	***871,445***		***2,060,193***	

Table 7: Projected Investment in Infrastructure as Percentage of GDP (Bottom-up Estimates)

(Rs. crore at 2006-07 prices)

Years	Base year (2006-07) of X Plan (BE/RE)	2007-08	2008-09	2009-10	2010-11	2011-12	Total XI Plan
GDP	4,145,810	4,518,933	4,925,637	5,368,944	5,852,149	6,378,843	27,044,506
Public Investment	175,388	192,107	227,327	273,543	332,355	411,226	1,436,559
Private Investment	49,858	78,166	94,252	115,724	146,762	184,687	619,591
Total investment	**225,246**	**270,273**	**321,579**	**389,266**	**479,117**	**595,913**	**2,056,150**
Infrastructure Investment as Percentage of GDP (%)							
Public	4.23	4.25	4.62	5.09	5.68	6.45	5.31
Private	1.20	1.73	1.91	2.16	2.51	2.89	2.29
Total	**5.43**	**5.98**	**6.53**	**7.25**	**8.19**	**9.34**	**7.60**

Country	2002	2003	2004	2005	2006	2007*	2008*
South Asia	3.7	7.8	7.4	8.7	8.7	7.7	8.0
Bangladesh	4.4	5.3	6.3	6.0	6.7	6.5	7.0
India	3.8	8.5	7.5	9.0	9.2	8.0	8.3
Pakistan	3.1	4.7	7.5	8.6	6.6	6.8	6.5
Sri Lanka	4.0	6.0	5.4	6.0	7.2	6.1	6.0
Nepal	-0.4	3.0	3.5	2.3	2.3	2.8	2.8
South-East Asia	4.8	5.3	6.5	5.6	6.0	5.6	5.9
PRC	9.1	10.0	10.1	10.4	10.7	10.0	9.8

Source: Asian Development Outlook: 2007

Comparison of infrastructure facilities in East and South Asia

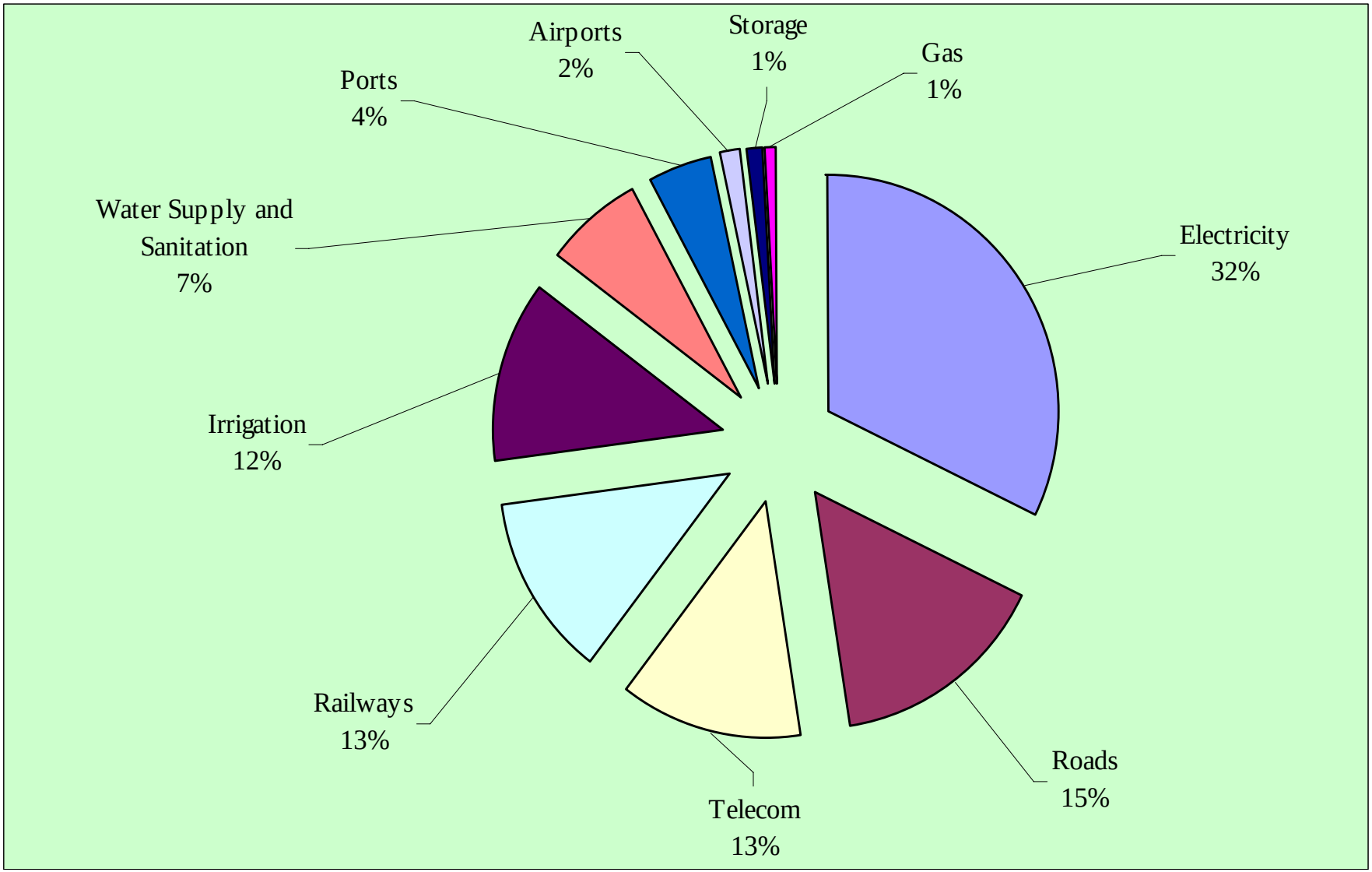
Table 3: Summary of Infrastructure Access Indicators in South and South East Asia, 2005

	Electricity	Water	Sanitation	Teledensity	Road Density (by population)	Road Density (by area)
Afghanistan	5	13	8	12		32
Bangladesh	25	75	48	16	1.6	1594
Cambodia	10	34	16	38	1	70
PRC	97	77	44	424	1.4	189
India	40	86	30	71	3.2	1115
Indonesia	80	78	52	127	1.7	203
Myanmar	5	80	73	8		
Nepal	15	84	27	18	0.6	107
Pakistan	55	90	54	44	1.8	334
Sri Lanka	75	78	91	122		
Viet Nam	60	73	41	88	1.2	287

Source: Jones 2006.

Note: Electricity (% of population access to network), Water (% of population access to improved sources), Sanitation (% of population access to improved sanitation), Teledensity (fixed line and mobile subscribers per 1,000 people), Roads (% of rural population living within 2 km of an all-season road).

PROJECTED ELEVENTH PLAN SECTOR SHARE (%)



PPP IN INFRASTRUCTURE

Massive Demand for Infrastructure

- Infrastructure development is moving at fast pace but is still unable to meet the massive demand.

Public Private Partnerships Increasing

- Significant private sector participation is seen and further needed to create world class infrastructure.

Developing infrastructure finance

- Debt finance sources increasing in number and improving in maturity

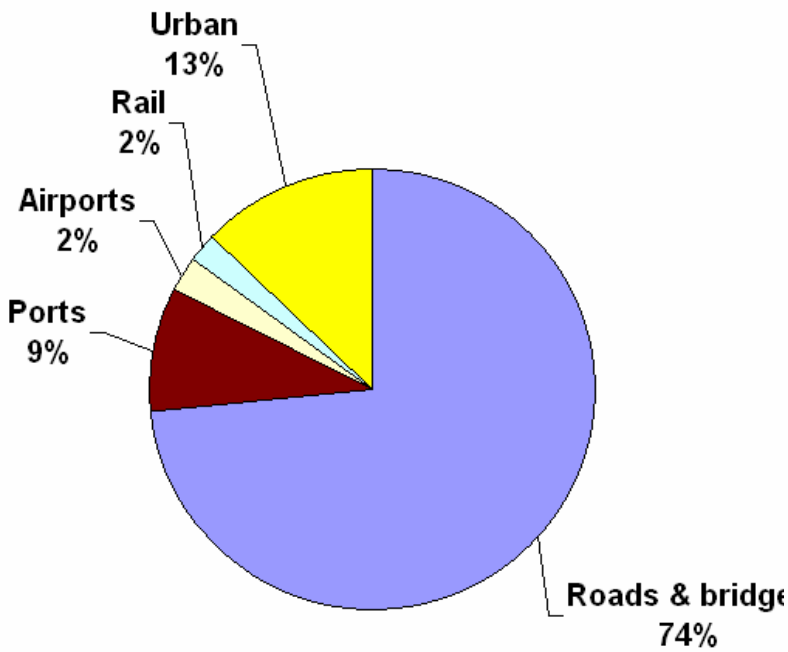
Expected Investments in Infrastructure in next 5-10 yrs

- Highways : Rs. 3,118,000 Mn (USD 62 Bn.)
  - Emphasis on BOT roads - HDP Phase III to Phase VII, State Highways, Pradhan Mantri Gramin Sadak Yojna
- Railways : Rs. 2,550,000 Mn (USD 51 Bn.)
  - Private container trains, Dedicated Freight Corridors, Logistic Parks / Railway Stations
- Ports : Rs. 740,000 Mn (USD 15 Bn.)
  - Concession at major ports and development of minor ports
- Airports : Rs. 349,000 Mn (USD 7 Bn.)
  - Delhi, Mumbai, Bangalore, Hyderabad, Chennai, Kolkata & 35 non-metro airports
- Power : Rs. 6,165,000 Mn((USD 123 Bn.)

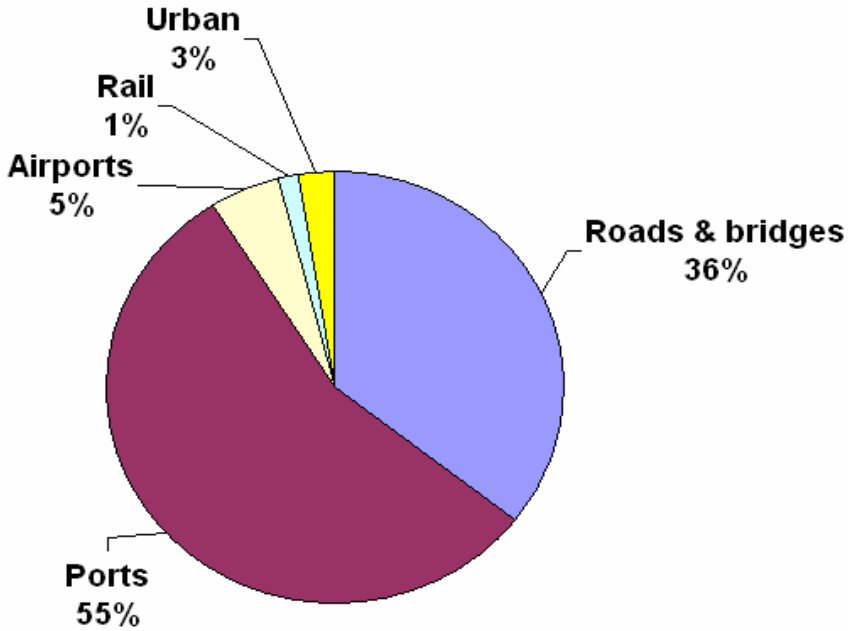
  Focus on alternative sources of power and new generation and transmission projects

PPI Landscape - India

No. of PPPs



Investment in PPPs

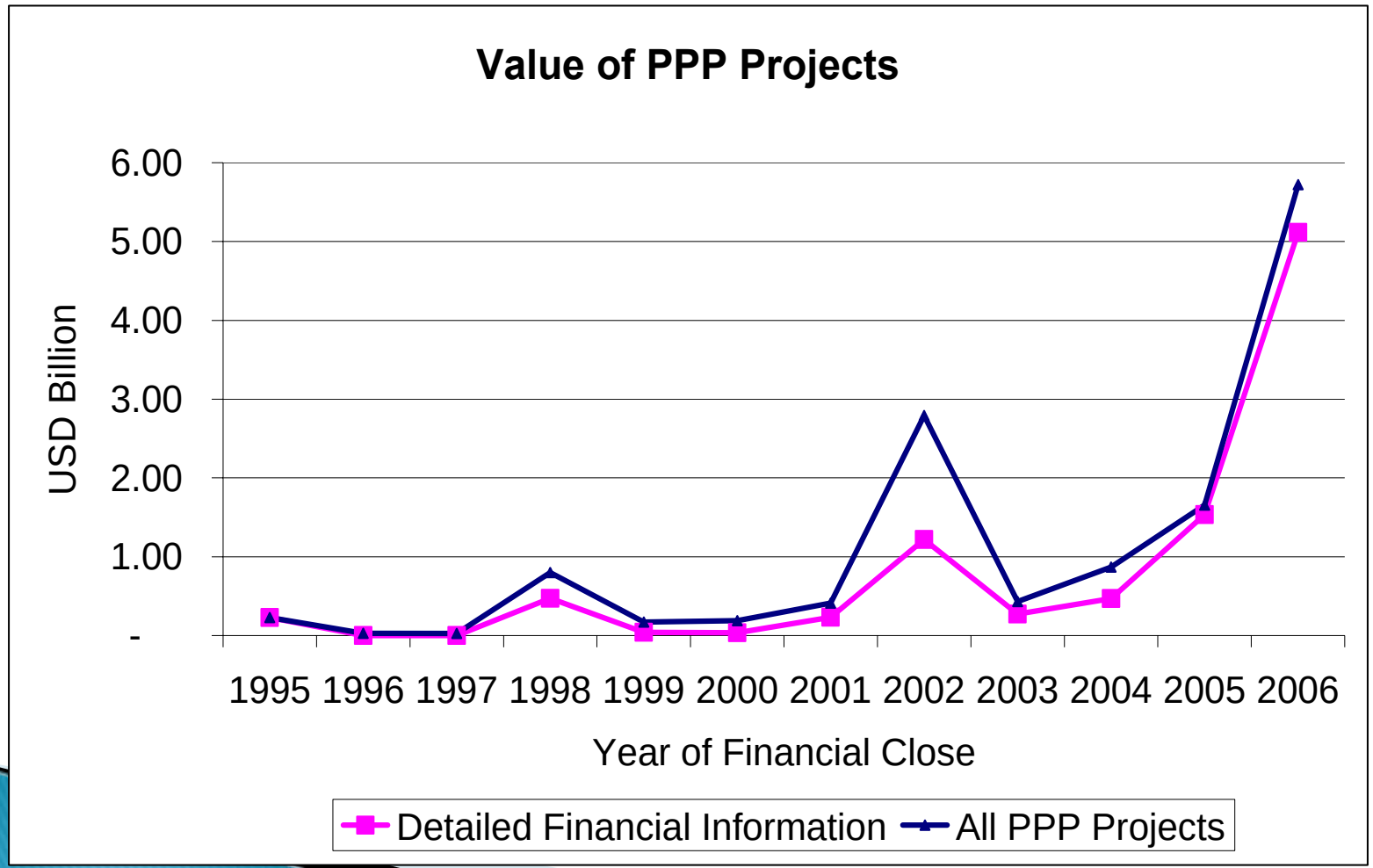


- *Telecom and IPPs not included – estimated around 7500 MWs (7% of total installed capacity).*

Source – PPIAF Study 2005

PPP Landscape in India

Source: PPP Infrastructure Financing in India, Interim Report (April 2007), PwC



Infrastructure Spending Targets: XI Plan

Planning Commission Estimates	**US $ 320 bn**
Public sector	*US $ 210 bn (65.6%)*
PPP	*US $ 70 bn (21.9%)*
Multilateral/ bilateral	*US $ 40 bn (12.5%)*
Deepak Parekh Report Estimates	
At 2005-06 prices	**US $ 384 bn**
At current prices	**US $ 475 bn**

Projected Investment in Infrastructure

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Ports	3.52	1.61	22.00	4.27
Airports	1.69	0.78	7.74	1.50
Storage	1.20	0.55	5.59	1.09
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Total US $ billion	**217.86**	**100**	**515.05**	**100**
Rs. cro	***871,445***		***2,060,193***	

India: Required Investment

- Required increase in infra investment (next five years) :

  From 4.6% of GDP → 8% of GDP

- Estimated non-Railway investment requirements by 2012:

  $ 49 billion – National Highways

  $ 9 billion – Airports

  $ 11 billion – Ports

  $120 billion – Energy

- $ 150 billion FDI in infrastructure sector alone

INVESTMENT TODAY

- GCFI in infrastructure as percentage of GDP 4.6 % during 2002-07
- PPI as percentage of GDP < 1%
- PPI in the last few years has been at USD 6-8 billion, while Government aims for approx. USD 15 billion
- If growth in GDP to be sustained GCFI in infrastructure must keep pace.
- Total estimated investment of USD 320-350 billion in infrastructure 2007-12 period
- Investment Plan:
  - Internal resources 70%
  - External funding (WB/ADB/Bilateral) 10%
  - Private investment 20%

Policy Option

- India's spending on infrastructure about 5% of GDP as compared to 10-12% of East Asian countries.
- Need large investment, Rs. 22 lac crore over 11th Plan.
- Public Sector resources not sufficient.
- Private investment necessary for infrastructure development.
- PPP – preferred mode for attracting private investment.

Governance for PPPs: Typical Issues Being Faced

- Unwillingness of incumbents to yield control over project construction & operation
- Excessive government control over functioning of PPPs
- Denial of level playing field
- Inadequate and inefficient roll out of projects
  - The demand for PPP projects is far greater than their supply
- Incumbent mindset constitutes a major challenge

India

Enabling Policy Framework for PPPs

- *"India needs a convergence between assumptions, opportunities and finances to overcome the Infrastructure deficit. The time has now come for all of us to work together to make the PPP model a success."*

Shri P. Chidambaram

(Former Finance Minister)

Government of India

UNECE – 7 GUIDELINES ON PROMOTING GOOD GOVERNANCE IN PPPs

- A coherent PPP policy
- Strong enabling institutions
- Legal framework-fewer, better, simpler
- Risk sharing and mutual support
- Transparency in partner selection
- Putting people first
- Achieving sustainable development

GOVERNANCE STRUCTURE FOR PPPS

- Constitution of a Committee on Infrastructure (CoI)
  - Prime Minister is the Chairperson
  - Ministers of Infrastructure Ministries; Finance Minister and Deputy Chairman, Planning Commission are members
- Empowered Sub-Committee of CoI chaired by Dy. Chairman, Planning Commission and represented by Ministries
- Secretariat for CoI in the Planning Commission
- Ministries retain their role but work closely with CoI to develop & implement the vision for world-class infrastructure
- Greater reliance on inter-ministerial & inter-disciplinary dialogue to enrich outcomes & eliminate conflicts of interest.

INSTRUMENTS OF GOVERNANCE

- PPP Appraisal Committee:
  - Appraises & recommends all PPP projects of the Central Government
  - Chaired by the Finance Secretary
  - Appraisal Unit in the Planning Commission

- Empowered Committee/ Institution
  - Approves proposals for Viability Gap Funding (upto 20% of capital costs)
  - Chaired by Secretary/ Addl. Secretary, Department of Economic Affairs
  - Appraisal Unit in the Planning Commission

- India Infrastructure Finance Company (IIFC)
  - Raises funds against sovereign guarantees
  - Provides upto 20% of capital costs as long-term debt

CENTRAL GOVERNMENT INITIATIVES FOR PROMOTING PPPs IN INFRASTRUCTURE

- **GOVERNANCE INITIATIVES:**
- Committee on infrastructure Aug 31, 2004 (C O I)
- Empowered sub-committee of COI (ESCOI) May 16,2005
- PPP Appraisal Committee (PPPAC)

CENTRAL GOVERNMENT INITIATIVES FOR PROMOTING PPPs IN INFRASTRUCTURE –CONTD

- **FINANCIAL INITIATIVES :**

- Viability Gap Funding Scheme (2006) to enhance the financial viability of competitively bid infra projects
- 20 % of capital cost to be provided as grant by the Central Government
- Additional 20% can be provided by sponsoring Ministry, State Government etc

Role of India Infrastructure Project Development Fund (IIPDF)

- Set up by the GOI with an **initial corpus fund of Rs. 100 crore**
- IIPDF would **assist upto 25% of Project Development Expenses** (PDE) in the form of Interest free Loans
- On successful completion of the project PDE would be **recovered from the successful bidder**
- PDE includes **Cost of Engaging Consultants & Transaction Advisors**
- **Currently IIPDF gives Rs. 1 crore** to hire Consultants
- In addition **Planning Commission can also give Rs. 25 lakhs** for hiring Consultants

The Progress so far…..

- Up to March 2009, PPPAC has approved 94 projects at an investment of Rs 84,407 crores(majority in road sector, few in ports)

- Overall 139 projects are through the PPP route with a capital investment of Rs 1,18,830 crore and VGF component of Rs 38,993 crores

- Additional 44 projects of state governments approved at a cost of Rs 34423 crores

FINANCIAL ARRANGEMENT

- VGF Scheme
- Setting up of IIFCL-India Infrastructure Finance Company Ltd in 2006
- IIFCL provides financial assistance upto 20% of project cost through direct lending and also by refinancing banks and FIs
- 88 projects sanctioned by IIFCL with loan disbursal of Rs 4891 cr upto March 2009

ENABLING FRAMEWORK FOR PPPs

- Government has also authorised IIFCL to raise tax free bonds for rs 10,000 cr to help refinance bank re-lending.
- Planning Commission has schemes to help out with project consultancy for feasibility studies,dpr etc through IIPDF- India Infrastructure Project Development Fund- for development expenses of infra projects including consultancy charges

TAX CONCESSIONS

- 100% Exemption on Income tax for 10 years for Infra projects
- Tax exemption and duty free import for road building machinery etc

THANK YOU