Infrastructure & PPPs in India

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Structure

- Definition
- External funding
- Other Instruments/Approaches
- Public Private Partnerships
- Q & A

Definition of Infrastructure

2009 Harmonized List (Dept of Economic Affairs, Ministry of Finance)

Applicability of the six characteristics of infrastructure:

-Natural monopoly

-High sunk costs and asset specificity

-Non-tradability of output

-Non-rivalness in consumption

-Possibility of price exclusion

-Presence of externalities

Assessment of one or more of three parameters:

-Its importance to the scheme of economic development

-Its ability to contribute to human capital

-The specific circumstances under which it has developed in India

Sources of Finance

- **Conventional Sources**

  - Budget
  - Internal resources (Railways, Posts)
  - IRFC, NHAI, PFC, etc
- **Multilateral/Bilateral Funds**
- **Public Private Partnerships**
- **Alternatives: Innovative Instruments**

India: LT-External Debt

S. No.	Component	External debt (US$)	Percentage share
1	Multilateral	60,224 million	10.06%
2	Bilateral	26,332 million	4.6%
Long-term debt		457,186 million	81.0%
Short-term debt		106,780 million	18.9%
Total		563.9 billion	100%

Source: https://dea.gov.in/external-debt

Mutilateral Institutions

Multilateral Development Banks

- IBRD
- ADB
- AIIB
- NDB
- (EIB)

AfDB, IADB

Japan International Cooperation Agency (JICA)

- Independent administrative institution under the Govt of Japan
- Largest bilateral donor agency (EME loans, grants, technical cooperation)

•Official Development Assistance (ODA) Loans

https://www.jica.go.jp/english/our_work/types_of_assistance/oda_loans/step/c8h0vm000053zae9-att/operational_rules.pdf

- STEP (2002): "visibility"

Not less than 30% of the total price of contract(s) (excluding consulting services) financed by a STEP loan shall be accounted for by either (i) goods from Japan and services provided by a Japanese company(ies), or (ii) goods from Japan only, depending on the nature of the project.

•OECD-DAC

2018:"*a remarkable surge in the amount of aid that puts donors' commercial priorities before the priorities of people living in poverty*."

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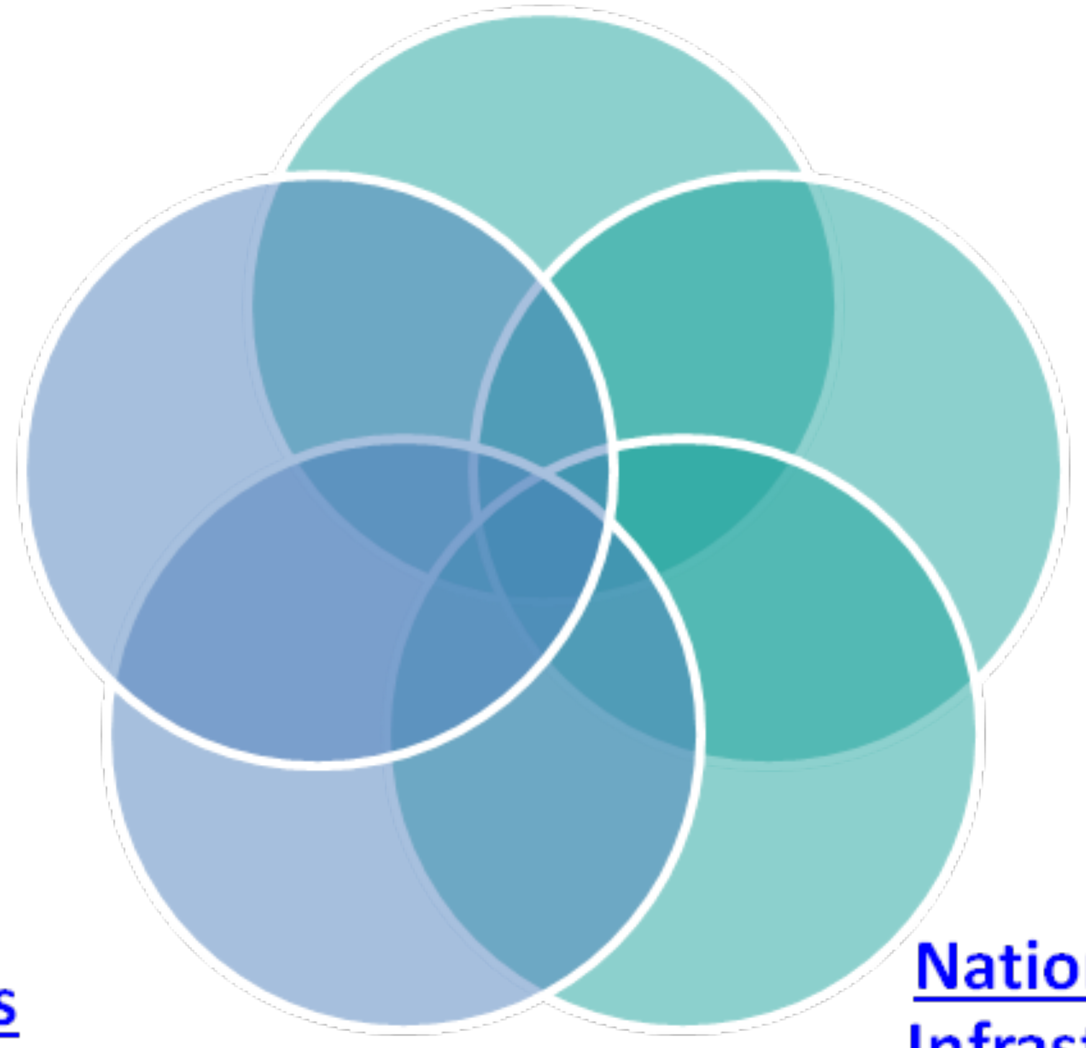
INNOVATIVE STRUCTURES FOR INFRASTRUCTURE INVESTMENT



Conclusion

"I've invited in someone from the private sector to help drive up our performance in fighting the private sector."

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 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 *<u>public service or good</u>*

Characteristics of PPPs

Financial cost of a PPP contract may be higher due to:

- Higher cost of private borrowing (risk diversification/default risk)
- Institutional, regulatory, and political risks

Comparison with traditional public investment/government supply of services

- – Economically viable for the Public Sector.
- – Financially viable for the Private Sector.
- – Appropriate Risk and Reward Balance for Public and Private Sector
- – Public Sector: value for money
- – Classic DBFO PPP:Private sector ownership of asset for period of operation (though may transfer it to government)

Why PPP

- Traditional implementation-rate contract:
  - Time + Cost overruns
  - Recurring maintenance costs

- In improved version-EPC, issue of O&M costs remains

- Private sector investment and/or management + innovation should lead to better value-for-money & reduce stress on scarce resources

- Comparison with traditional public investment and government supply of services:

  Efficiency gains should be > higher private sector borrowing costs (or higher financial cost charged to the government in a PPP contract) - this should be based on <u>robust</u> Public Sector Comparator

OBJECTIVES

- Government
  - Social and political justification
  - Third party funding
  - Value for money
  - Balanced transfer of risk
  - Compliance with legislation
  - Off balance sheet treatment
- Corporate
  - Economic justification
  - Financeable project—debt repayment
  - Commercial contracts (O&M, construction, design)
  - Manageable risk
  - Attractive return—appropriate equity IRR
- Debt Financiers/Investors
  - Manageable risk profile
  - Revenue model
  - Government support
  - Defined regulation (risks)
  - Competition
  - Security arrangements

Objectives (contd.)

- Maximizing investment
- Addressing budgetary constraints
- Development of assets of world class standards
- Improved maintenance and management of assets
- Provision of efficient services
- Affordable prices through greater competition
- Risk Sharing

How is Success Determined?

- Comparison is with traditional public investment and government supply of services.
- A successful PPP delivers high-quality services at lower cost than government.
- Efficiency gains are large enough to cover higher private sector borrowing costs (or the higher financial cost charged to the government in a PPP contract).

Pre-requisites for Success

- A private sector with experience & track record eager to lead transactions
- Commercial and financial innovation for efficient capital structures and competitive funding terms
- Strong demand from capital markets for structured project risk

ISSUES

Constraints:

- Policy/Regulatory framework
- Long term finance
- Credible, bankable projects
- Capacity in public institutions/officials
- Capacity in private sector

What Foreign Investors Look For

- Good projects
- Demand potential
- Revenue potential
- Stable policy environment/political commitment
- Optimal risk allocation framework
- Independent regulation

Q & A