

Public Private Partnerships in Infrastructure

Success Stories, Learning & Way Forward



Jayesh Ranjan, IAS
Secretary, Information Technology,
Government of Telangana

Importance of Infrastructure

- Most significant criteria for a continued growth rate of an economy rests on provision of a quality infrastructure.
 - ✓ About **8% of the GDP** needs to be invested (Planning Commission)
- Comprehensive infrastructure development calls for simultaneous improvement of all infrastructure sectors such as power, irrigation, telecommunication, transport, housing, water supply and other urban amenities, which cannot be done by the Government alone.
- To involve private sector in the areas of infrastructure development and to bridge the gap between demand and supply, PPP is being actively pursued in India **to meet the gap** in the provision of basic infrastructure services.

INTRODUCTION TO PPP...

- Public Private Partnership (PPP) is often described as a private business investment where 2 parties comprising government as well as a private sector undertaking form a partnership.
- In PPP model, the **State shares the risks and responsibilities with private sector** while retaining the control of assets, which is expected **to improve services** while avoiding some of the pitfalls of privatization such as higher prices.

WHY PPP?...Historical Perspective

Traditionally, all infrastructure projects have been the responsibility of the Government encompassing the following activities:

- Development
- Financing
- Construction
- Maintenance



This has been so because:

- Infrastructure services are difficult to price so as to fully cover all costs
- Infrastructure involves high upfront costs and long payback periods
- The private investor is often not capable of obtaining long-term finance
- Cross-subsidization is easier done by public sector than private sector

WHY PPP?...Historical Perspective

Recently, there has been a paradigm shift in funding of infrastructure from the Government to the Private sector mainly due to:

- **Budgetary constraints** in making available funds to meet the huge requirements of the infrastructure sector
- Dissatisfaction with the performance of state provided infrastructure
- More **efficient utilization of resources** by the private sector
- Greater Government emphasis on allocation of budgetary resources to social service sectors such as health and education

WHY PPP?...

- With the Indian economy now recording a growth rate of over 9%, it is estimated that **US \$ 1 Trillion would be required for investment in the infrastructure sectors during 2012-17.**
- About 50% of this investment is expected from the private sector. Public Private Partnerships (PPPs) present the most suitable option of meeting these targets, **not only in attracting private capital in creation of infrastructure but also in enhancing the standards of delivery of services through greater efficiency.**

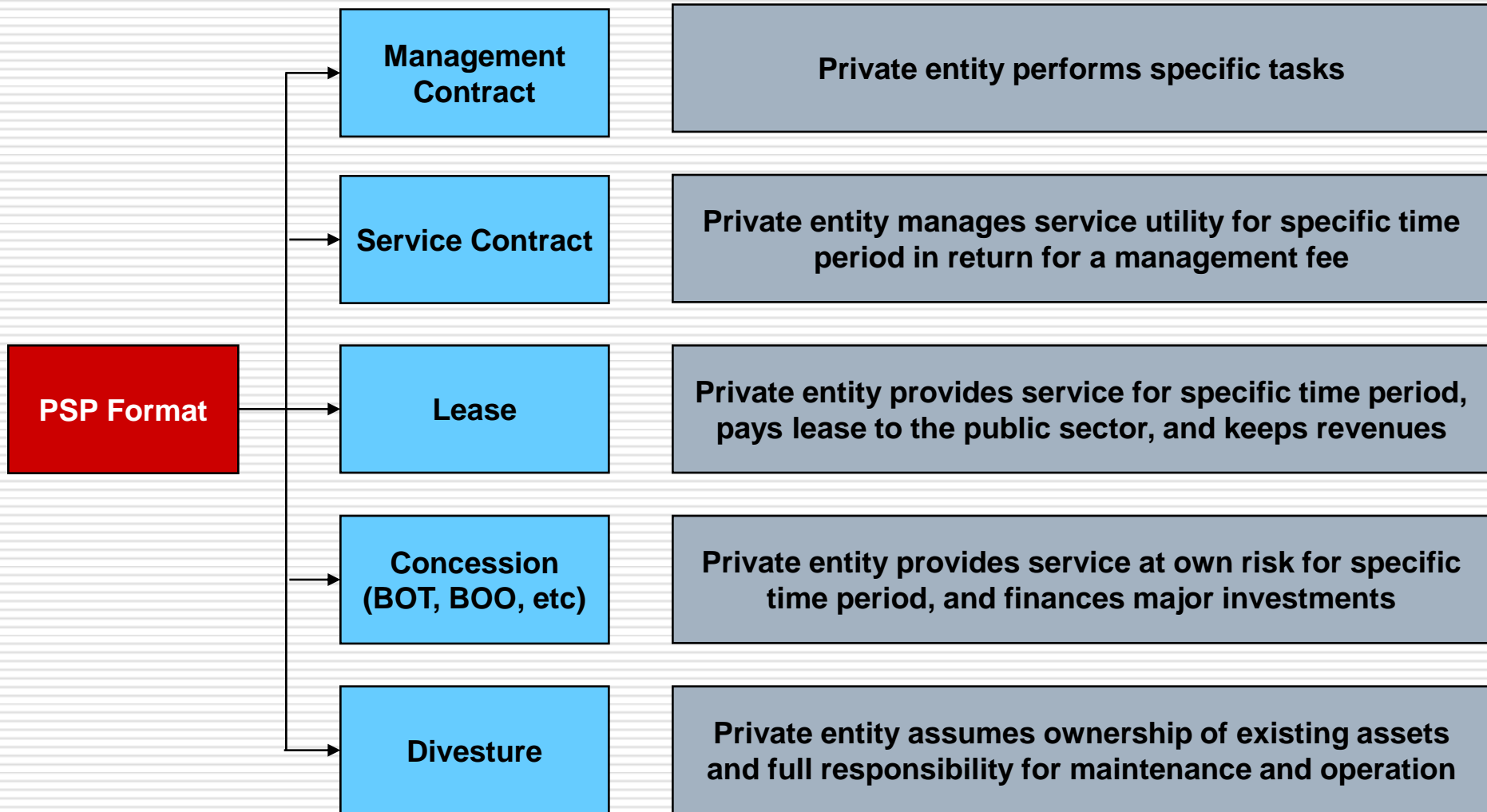
FORMS OF PRIVATE SECTOR PARTICIPATION (PSP)

- Private Sector Participation through Public-Private Partnerships can vary in:
 - ✓ The degree of risk allocated between the Partners
 - ✓ Sharing of rewards, investments and responsibilities
 - ✓ The Potential implications for users

INVESTMENTS - PRIVATE SECTOR PARTICIPATION (PSP)

- Investments from private sector are high in those sectors **where user cost is well defined and easily recoverable.**
- Other supporting factors include presence of relatively **mature policy regime, stable regulatory environment** and existence of tested models/structures of financing
- For this reason most of the PPP large ticket projects are concentrated in Roads, Power, Ports and Airports.

MODELS/FORMATS OF PSP



Project Development – Must for PPP Success

BANKABLE PROJECTS BY ENSURING

PROJECT DEVELOPMENT

- Techno-Economic Viability : Financial Rate of Return
- Risk Management : Identification , Mitigation, Allocation
- Adequate Economic Rate of Return
- Rigorous Environmental and Social Assessment
- Conformity to public standards and transparency
- Appropriateness of the Institutional and Legal Framework

Is PPP More Expensive?

- Typical PPP project is required to adhere to higher levels of service, is more accountable and requires to adopt a full cost recovery model, there is bound to be a difference in the price.
- If Government were to adopt a similar approach within the traditional system of delivery, it is likely that the delivered price of services would be at a significant premium to the PPP approach.

Is PPP More Expensive?...

- The existing level of infrastructure services is sub-optimal and thus ability to price these services is also limited. Thus, the existing system is caught in a viscous circle, of poor services, resulting in poorer recoveries, which in turn results in poor investments.
- The PPP approach, however, provides a framework for higher quality of services, resulting in higher recoveries, which in turn, enables greater ability to invest and improve the quality of services overtime

Does PPP hit the Poor?

- The recovery of investment in a PPP framework could be structured in such a way as to enable cross subsidies between different classes of users.
- This would imply that sectors of our society, which would otherwise have to do with extremely poor quality of services, or no services, or services at user expenses, could be specifically targeted in a transparent and organized fashion.
- A large number of PPP projects, which have already been implemented in the country, clearly demonstrate this principle.

PPP INITIATIVES: ORIGINS IN TELANGANA

- Initiatives started way back in 1996 with the setting up of a HITEC City on PPP mode (with L&T)
- First of its kind in India, The Infrastructure Development Enabling Act, 2001 (IDEA) enacted to provide institutional mechanism for attracting private sector investments in Infrastructure Sector – all other states followed
- Conducted Partnership Summits in association with CII to attract global investments
- Pioneer State in PPP Projects- Lot of Show Case Projects
 - ✓ International Airport, HICC, etc.

MAJOR PPP PROJECTS

- Hyderabad International Airport (Rs 2478 Cr)
- Hyderabad Outer Ring Road (Rs 3000 Cr)
- Hitech City (Rs 450 Cr)
- Convention Center & Integrated Township (Rs 670 Cr)
- Mind Space IT Park Project (Rs 2000 Cr)
- Hyderabad Metro Rail (Rs 14,000 cr)

Rajiv Gandhi International Airport, Hyderabad

Shamshabad Airport



Ranked as worlds best Airport in 5- 10 million passenger category

HITEC City, Hyderabad



Instrumental in creating over three lakh IT Jobs

Hyderabad International Convention Centre (HICC)



India's ICON for MICE Infrastructure

Hyderabad Metro Rail



HYDERABAD METRO RAIL LIMITED
(A Government of Andhra Pradesh Enterprise)



Construction of global standards

The elevated viaducts will avoid traffic congestion and get commuters to their destinations quickly



Driverless Technology and Automatic Doors

Modern and air-conditioned coaches that use high-tech driver-less technology and automated closing and opening of doors

First PPP (on BOT) Metro Project in the World

National Games Village



Types of State Support for PPPs

- **Administrative Support:** Extend support in getting stat level and central level clearances, Undertake rehabilitation & resettlement, provide power and water at project site, acquire land necessary for the project
- **Asset Based Support:** Providing land at concessional lease charges, provide linkage infrastructure to projects
- **Foregoing Revenue Stream:** Exemption of sales tax & Stamp duty
- **Guarantees:** Guarantee of receivables, Provide off take guarantee
- **Financial Support:** Direct financial support like state VGF

KEY FACTORS OF SUCCESS

- Transparency in Selection Process - Key for Success
- Institutional Mechanism & Right Skill Sets to Structure and Develop the Projects
- Project Feasibility to be established before offering to private sector
- Escort Services from Government – Must for initial Stage of any project
- Land related issues to be addressed upfront

ISSUES & CHALLENGES

- Capacity and Awareness in State Govt. Departments to handle PPP Projects successfully
- Scarcity of experience in project delivery and long term service delivery
- Limited availability of risk capital and long term debt finance
- Land Acquisition, R&R issues and Project Right of Way
- Political in-stability
- Fear of Audits among the employees

ISSUES & CHALLENGES...

- Lack of standard documentation like MCA, State Support Agreement etc..
- Potential sectors for project replicability should be identified so as to establish efficient project delivery capacity on sectoral basis
- Dissemination of information and best practices from other states to avoid wasting of time in reinventing the wheel

ISSUES & CHALLENGES...

- Developing bankable project documents acceptable to Government, bidders and lenders
- Identifying of risks and sharing equally between the public and private parties
- Financial evaluation is on the basis of audited balance sheets – they may be fudged at times.
- Difficulty in achieving the financial closure and delay in submitting performance guarantees by developers



Thank you

Jayesh Ranjan, IAS



Secretary, ITE&C
Govt of Telangana
2th Floor, D Block
Secretariat, HYDERABAD – 500 022
Ph: 040 - 23456401
Email: secy_itc@telangana.gov.in