

Asian Development Bank Institute

PPP – Acceleration and Evolving Approaches*

November 2007

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India Infrastructure Prospects

- “Economic” & “Social” Infrastructure

PPPs in India

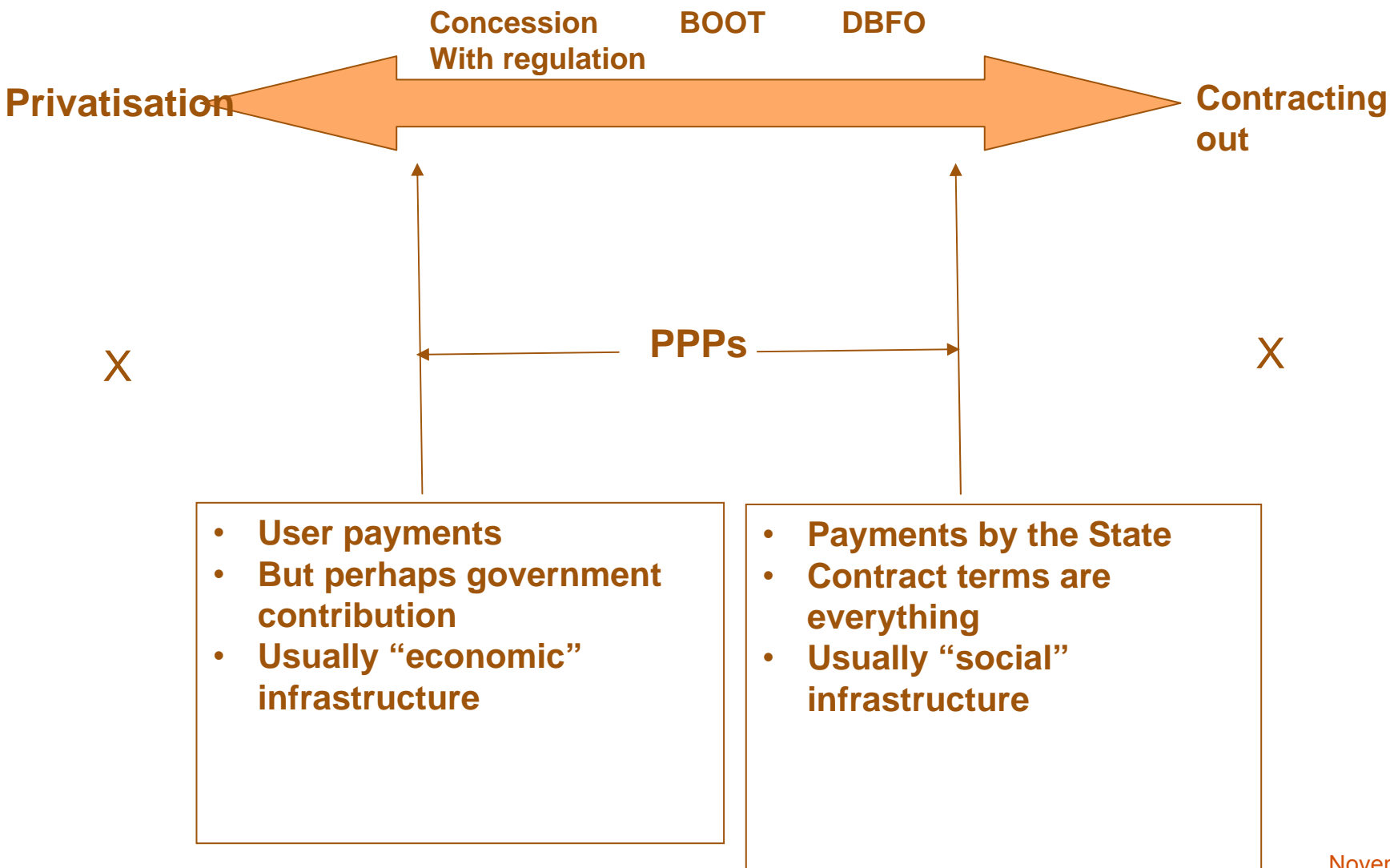
- Growth
- Sector & Regional Share

Evolving Approaches

- Institutional
- Policy & Regulatory
- Financing

What Next?: Observations for discussion

Defining PPPs for our discussion



India Infrastructure

Significant “social infrastructure” needs

Health	Public spending as low as 0.9% of GDP.
Education	Literacy as low as 65.38%; Public expenditure is as low as 3.5% of GDP.
Housing	About 40 Million slum dwellers.
Water	90% of Urban have access to Water, but availability only for 5-6 hours; Sanitation is a privilege to less than 60% of the households and tap water for less than 50%.
Power	Over 40% of India’s population do not have access to Electricity. Energy & Peak demand deficits of 8% & 12% respectively. T&D losses ranging around 21% & 45%.
Roads	About 40% of Rural Population not connected to fair-weather roads.
Railways	Total Route length of 63,000 Kms with 6,800 Stations; Only 20% of the routes are electrified.
Telecommunication	Tele-density of only 8.37%

Political economics and consequent issues on sector governance impact infrastructure investment attraction as well as sustainability

India Infrastructure

Large & attractive “economic infrastructure” demands too

Currently India spends approximately 4.6% of GDP on infrastructure (*including both government and private sector spending*), with the private sector contributing less than 1% of the GDP.

The Government of India estimates that the total infrastructure investment required in the country would be in the range of US\$ 490-500 billion over the next five years (*2007-2012*)

Directing domestic savings to infra investments, attracting FDI, innovatively using Forex reserves to fill the “gap”

Sector	Investment Need (US\$ Billion)
Power	150.37
Roads	76.05
Telecom	65.12
Railways	62.20
Irrigation	53.10
Water Supply & Sanitation	48.57
Ports	18.03
Airports	8.46
Others	10.46
Total	492.37

India expects one-third of infrastructure investments to come from the private sector, mainly through PPPs, and for this purpose it had created a specific unit in the Dept. of Economic Affairs to promote PPP.

November 2007

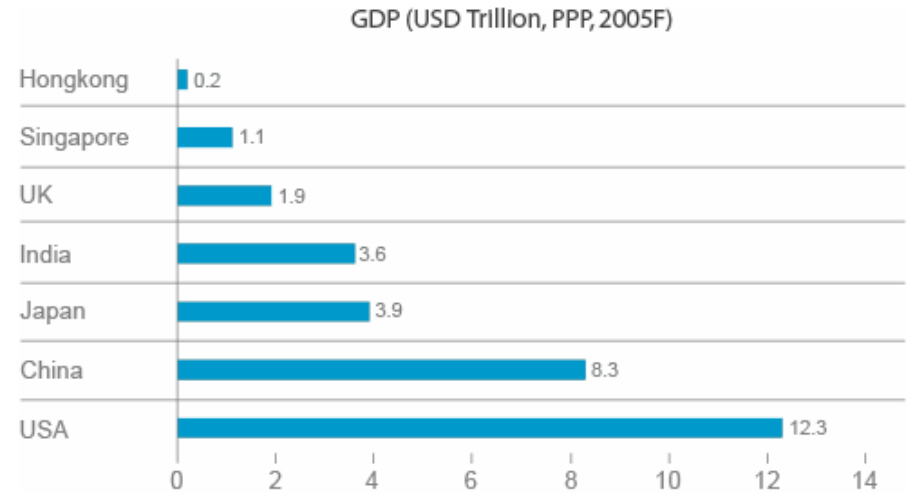
Slide 5

India: rising GDP

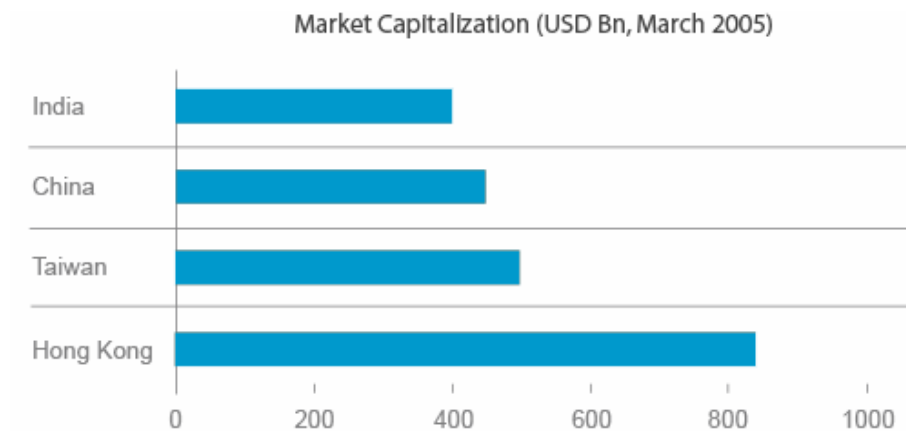
- 4th largest economy in the world (Source IMF)
- **2007 GDP:** US\$ 1 trillion;
- 2nd fastest growing major economy in the world, with a GDP growth rate of 9.3% at the end of the second quarter of 2006–2007.
- Net portfolio inflows of **US\$ 9.2 Billion in 2006-07:** 4th largest in Asia in terms of Market Cap.
- Forex reserves of US\$ 160 Billion as against **US\$ 114 Billion of external debt**
- **51% of GDP** contributed by services sector, **25% by manufacturing**

9.3%

- ▶ Industrial sector grows **9 %**
- ▶ Services sector rises **9.8 %**
- ▶ contributing **65% of GDP**



Source: Economic Survey 2003-04, Government of India



Source: Economic Survey 2003-04, Government of India

MNC Experience in India






Raising Confidence Levels

220 of the Fortune 500 are now in India

- 70% making profits → 91% of these profit-making MNCs have succeeded in meeting profitability targets
- 83% planning to expand
- 87% perceive greater investment opportunities

(Figures from FICCI FDI Survey 2005)

Share of top five investing countries in FDI inflows. (1991–2004)^[74]

Rank	Country	Inflows (Million USD)	Inflows (%)
1	 Mauritius	8,898	34.49% ^[75]
2	 United States	4,389	17.08%
3	 Japan	1,891	7.33%
4	 Netherlands	1,847	7.16%
5	 United Kingdom	1,692	6.56%



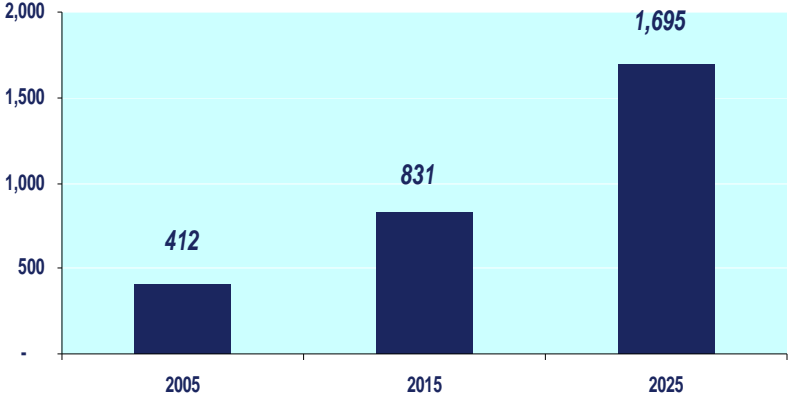
“The question is no longer whether India can fly... but HOW HIGH..”

The Economist
June 01, 2006

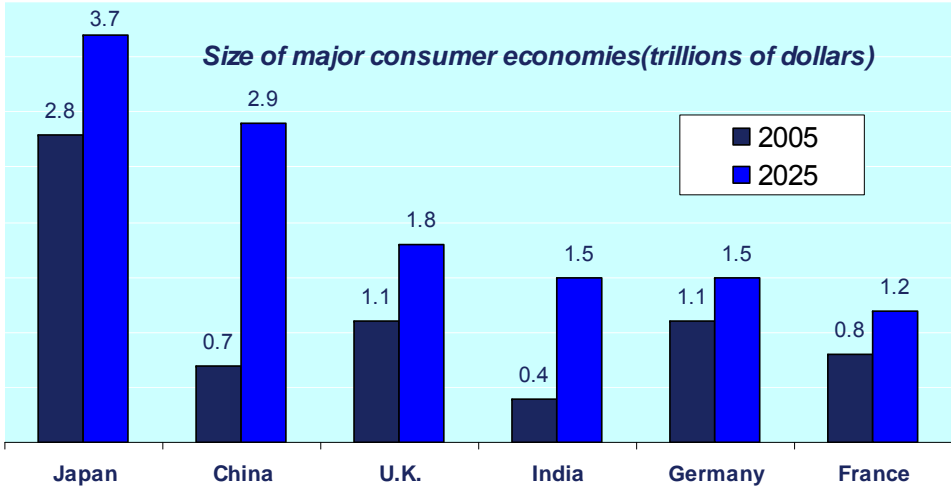
India's Consuming Boom

Growing Urban Middle Class

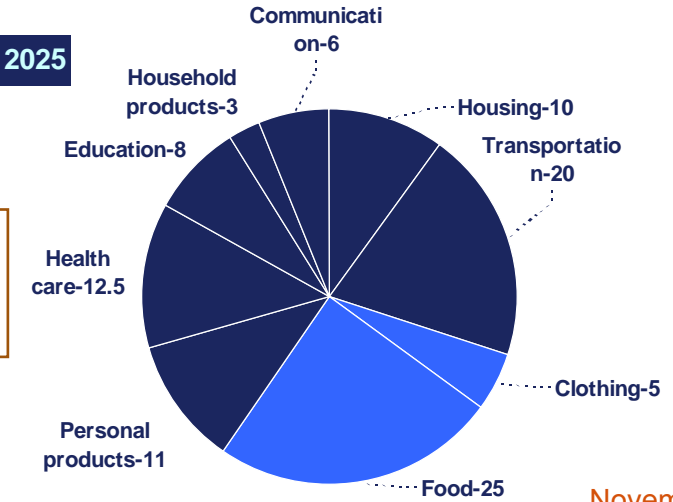
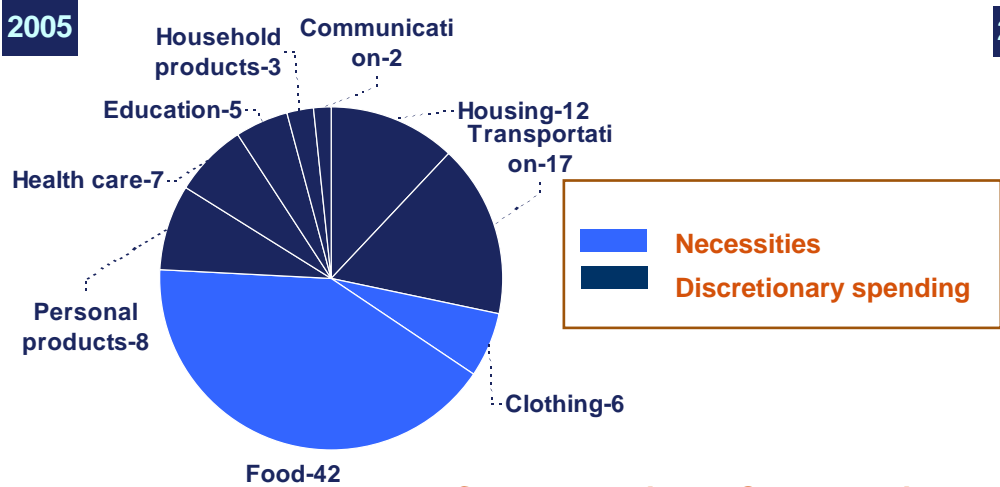
Total Indian consumer spending(in billions of dollars)



Size of major consumer economies(trillions of dollars)



Indian consumer spending by category

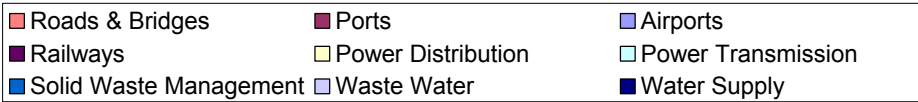
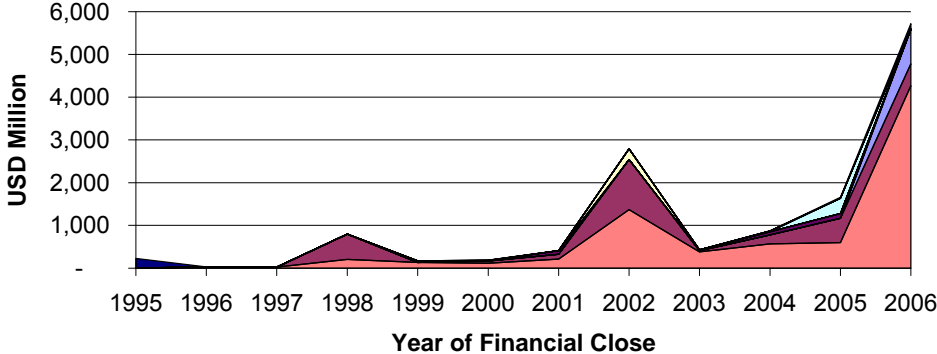


Source: Mckinsey Global Institute

PPPs in India

Growth & Prospects

PPP Projects in India by Value
(Total Value USD13.32 billion)

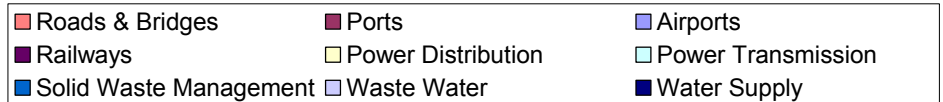
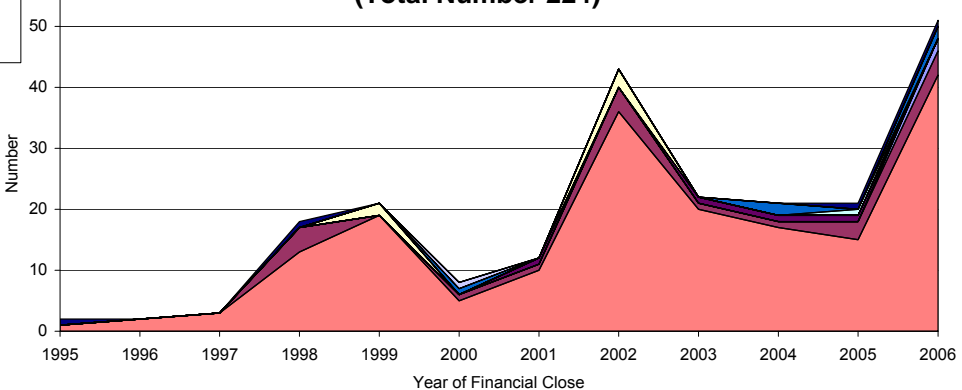


Project achieving financial closure in the year 2007 (7 in number – 2 Airport, 5 Roads & Bridges) have been excluded in this trend analysis because the analysis cannot be done for the whole year in 2007. That is why in the graphs showing yearly trends the number of projects comes to 224 instead of 231 and the project value comes to USD 13.32 billion rather than USD15.8 billion.

The CAGR of value of PPP projects has been approximately 157% during the last decade. The number of projects have sharply increased in the last 3 years.

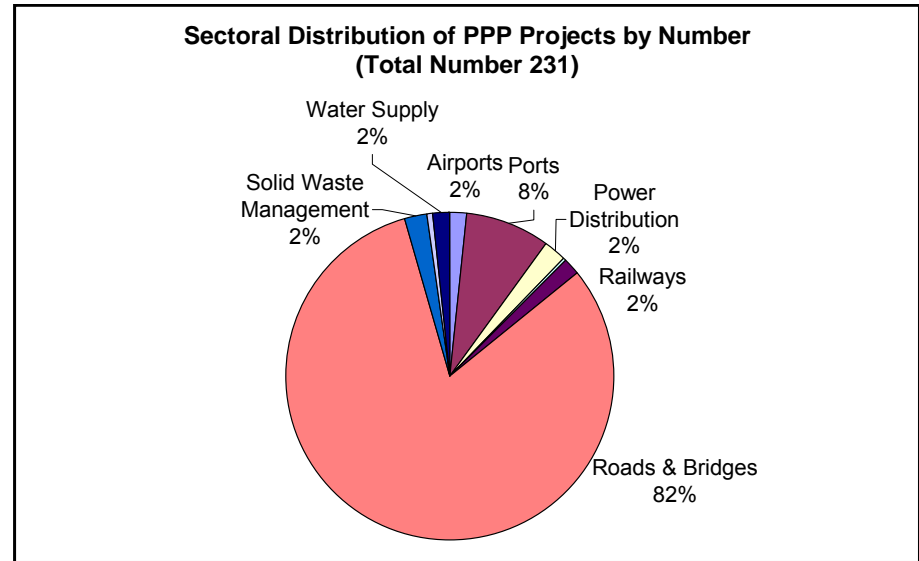
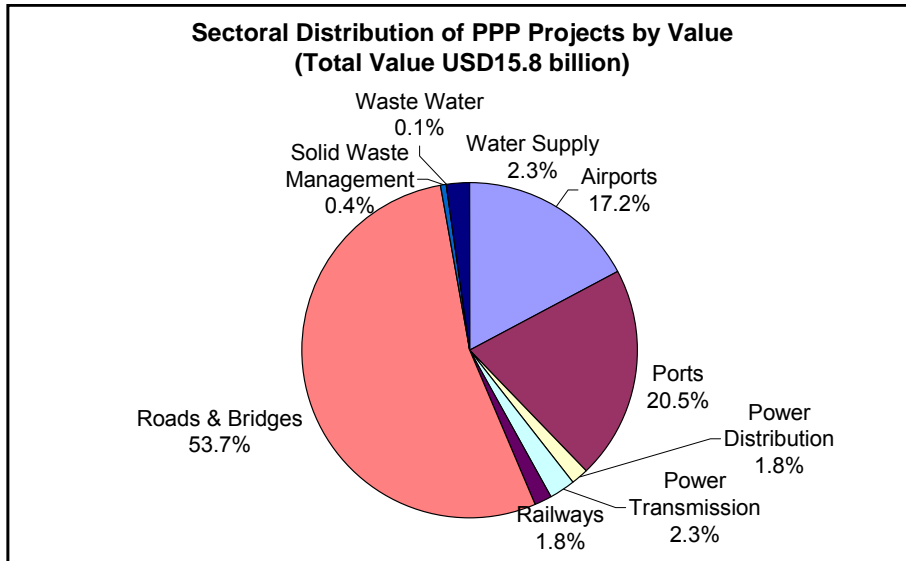
Out of the total 231 projects more than 93 PPP infrastructure projects have achieved financial close in the last 3 years. Road sector (*especially National Highways*) has seen the maximum activity in terms of the number of projects

PPP Projects in India by Number
(Total Number 224)



PPPs in India

PPP Projects Growth Sectors

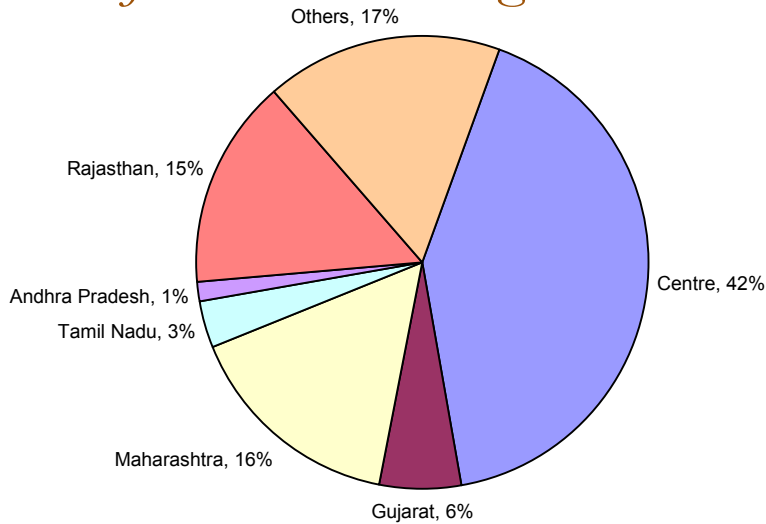


Roads sector which forms more than 81% of the total PPP projects by number accounts for approximately 54% of the total projects by value. While Power Sector accounts for 2% in number of projects and 4.1% in value.

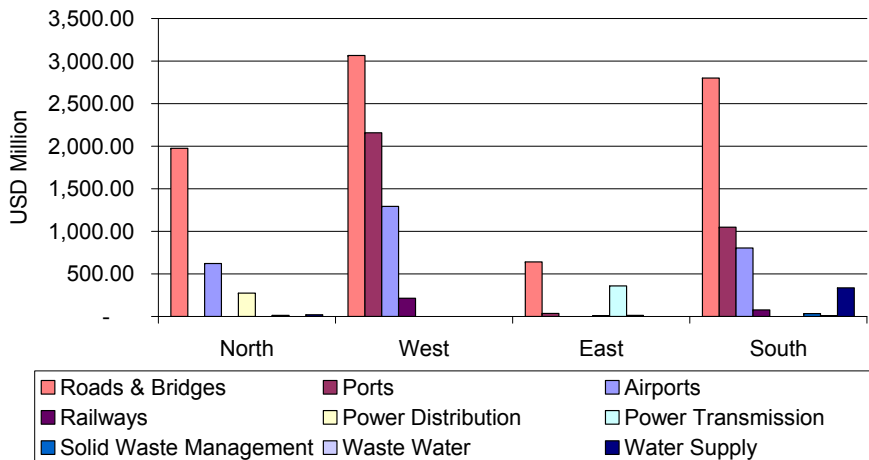
PPPs in India

PPP Projects Growth— Regional Development

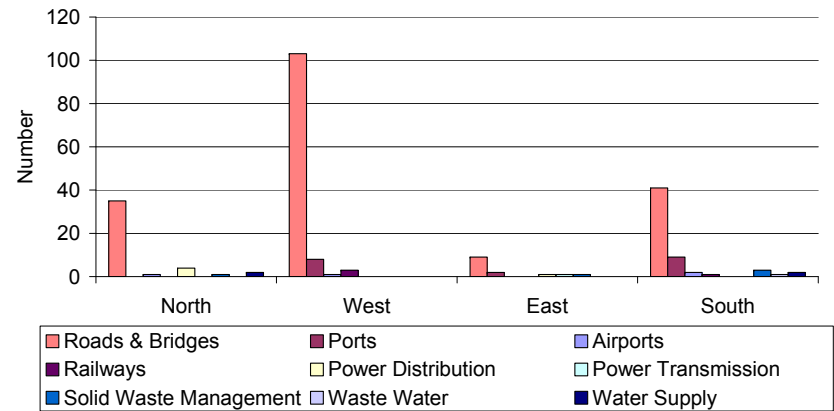
Although GUJ, AP and PUNJ have cross-sectoral legislation and dedicated agencies to promote PPP in infrastructure; GUJ and AP have had significantly greater success than PUNJ. MP and MAH with sector specific agencies have also had successes in their respective sectors, but this has not spread across to other sectors.



PPP Projects Across Region by Value
(Total Value USD15.8 billion)



PPP Projects Across Region by Number
(Total number 231)



India Evolving Approaches

Institutional Mechanism & Funding

Institutional mechanisms set up by the GoI to specifically promote PPP in the infrastructure sector in India

- Viability Gap Funding scheme (*to make infrastructure projects which have high social benefit, commercially viable*)
- India Infrastructure Finance Company Limited – IIFCL (*an SPV to lend to infrastructure projects*)
- Monoline Credit Insurance Company (under consideration) - to provide credit guarantee to Indian companies borrowing abroad

Other Fund sourcing initiatives

- Creation of \$5 billion India Infrastructure Initiative Fund (*launched in March 2007 by IIFCL, IDFC, Citigroup Inc., Blackstone Group*)
- Private Equity : 3i initiative of US\$5billion on infrastructure
- Creation of India Infrastructure Project Development fund (*corpus of INR 100 Crores created*)

Evolving Approaches

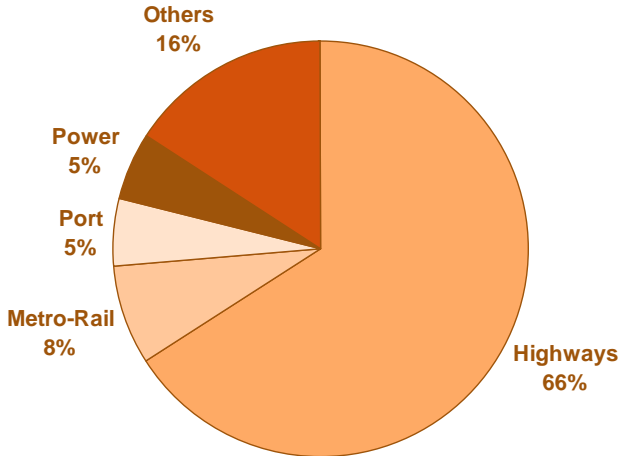
Viability Gap Funding scheme

Status of Project seeking VGF

Proposal given in-principal approval	US \$ 2,524 Million
Proposal yet to be considered by empowered institution	US \$ 3,574 Million
Proposals not conforming to VGF guidelines	US \$ 2,263 Million
Proposals where bidding is complete	US \$ 254 Million
Proposals with outstanding issues	US \$ 491 Million
Grand Total	US \$ 9,106 Million

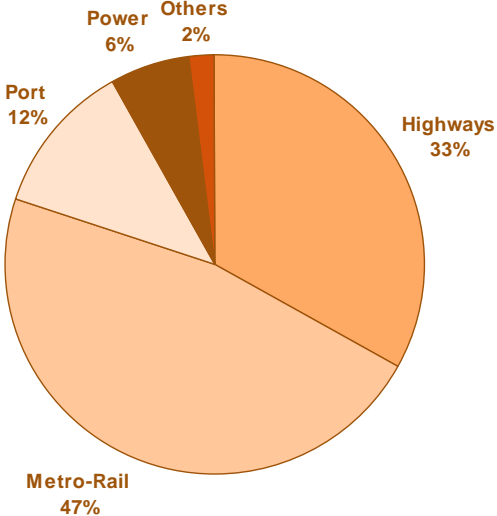
No. of PPP Project seeking VGF

(Total: 38 Nos. - between March & May 2007)



Cost of PPP Project seeking VGF

(Total: US\$ 9.1 Billion - between March & May 2007)



Evolving Approaches

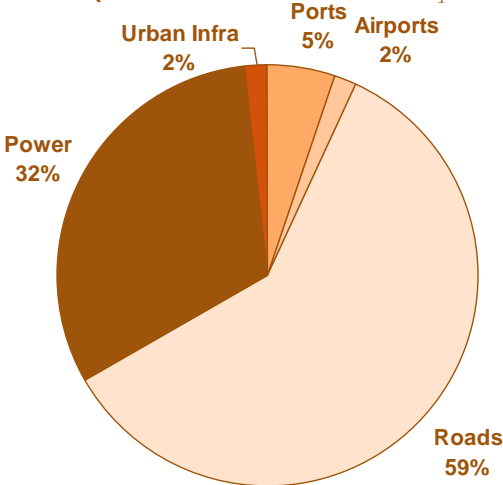
India Infrastructure Finance Company Limited

Projects sanctioned by IIFCL

Power	US \$ 1,892 Million
Roads	US \$ 862 Million
Ports	US \$ 75 Million
Airports	US \$ 288 Million
Urban Infrastructure	US \$ 4 Million
Grand Total	US \$ 3,120 Million

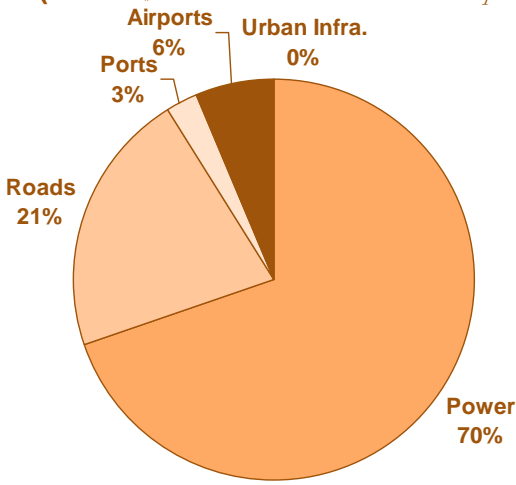
No. of PPP Project approved by IIFCL

(Total: 57 Nos. - between 2006 & April 2007)



Cost of PPP Projects approved by IIFCL

(Total: US\$ 2.27 Billion - between 2006 & April 2007)



Evolving Approaches

Other Institutional Initiatives

Other Institutional initiatives

- Creation of PPP cell – nodal department dealing with all aspects of PPP at central level
- Most central ministries and state government have setup PPP cells and have appointed joint secretary/ state secretary level officer as nodal officer. 22 states have set up their PPP cells to act as a nodal agency for PPP.
- Creation of Empowered Committee and Empowered Institution to sanction VGF for any PPP project.
- Creation of Committee on Infrastructure headed by the Prime Minister.

Evolving Approaches

Policy & Regulatory Support Status at State level is slow

State	Framework law enacted	Nature of PPP unit established *	Approval Power over PPPs**	Intensive project specific advice**	Resource Centre***	PPP guidance material***	Funding for PPP preparation (b)***
Gujarat	√	(2)	√	√	√	√	√
Andhra Pradesh	√	(2)	√	√	√	√	√
Punjab	√	(2)	√	√		√	(b)
Madhya Pradesh						(a)	(b)
Maharashtra							(b)
Tamil Nadu							(b)
West Bengal		(4)					(b)
Karnataka		(4)					(b)
Uttar Pradesh							(b)
Orissa							(b)
Delhi							(b)

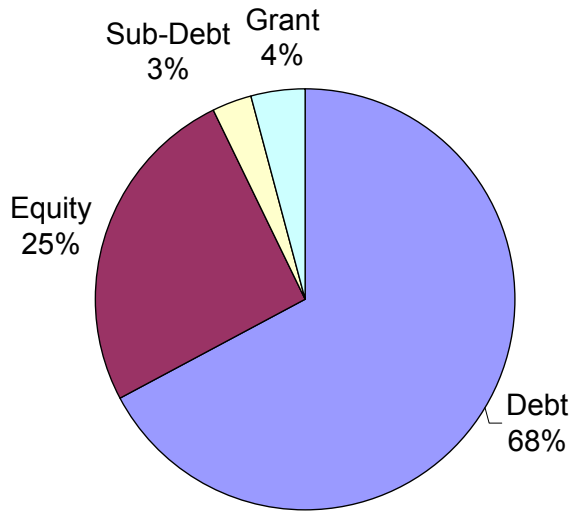
Source: World Bank

* “PPP unit” in this table means a cross-sectoral unit; (1) = unit is part of ministry or department; (2) = autonomous or quasi-autonomous administrative unit; (3) = public authority or publicly owned company; (4) = public-private joint venture company; ** dedicated PPP unit; *** might be provided by a dedicated PPP unit or another department/ministry; (a) sector specific; (b) limited to some sectors/agencies/projects

India Initiative

PPP Financial Structuring in India

Financial Structuring of PPP Infrastructure Projects
(Total Value USD11.48 billion)

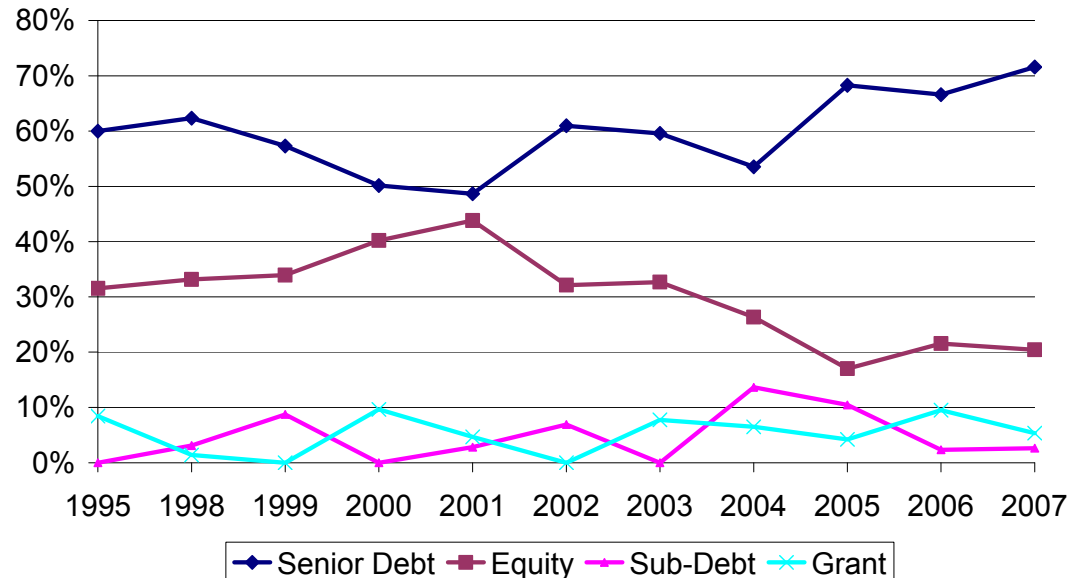


The grants are mainly in the form of monetary support given by both the State and the Central Government to make the projects viable.

More confidence on PPP projects by commercial banks leveraging of risk equity improved

Other concerns on sector exposure, single large project exposure, asset-liability mismatch etc remain

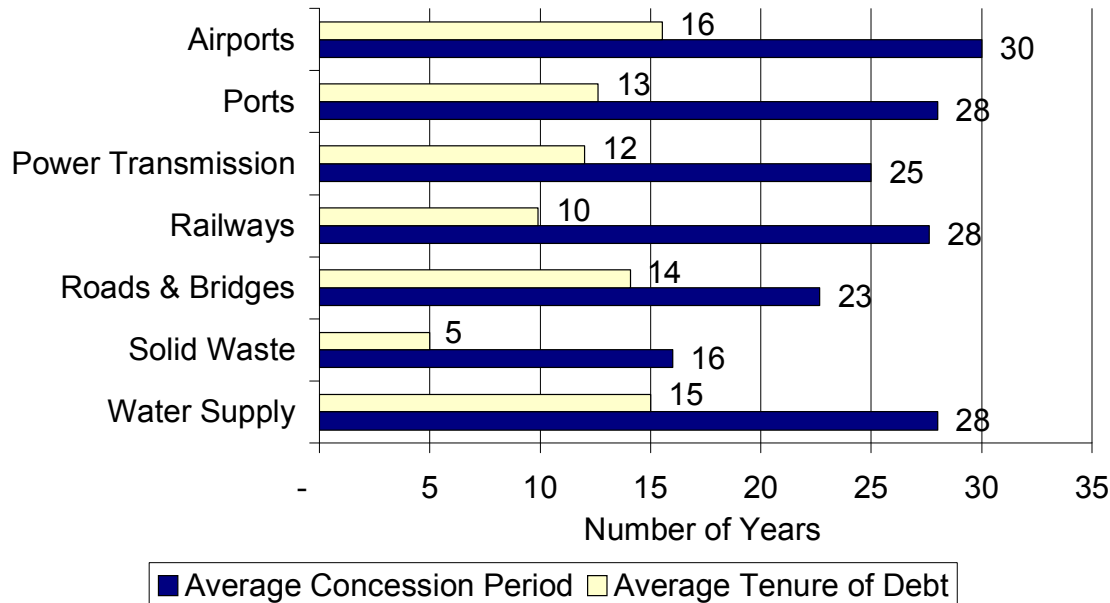
Changes in Financial Structure Over the Year



Financing

Average Tenure & Concession Period

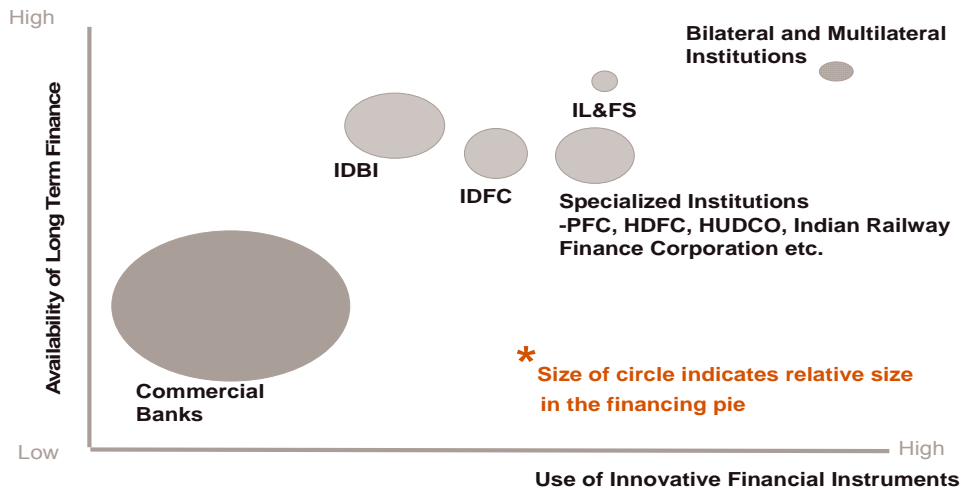
Average Tenure and Concession Period



- The tenor of term loan by banks is around 50% of concession period length.
- As compared to India internationally the debt tenure is typically 80-90% of the concession period.

Financing

Institutions Operating in Debt Financing of PPP Projects



- PPP debt financing is dominated by commercial banks. Banks offer mainly loans and sub debts where needed and are hampered by the lack of availability of long term finance as well as they lack in providing innovative financial instruments.

- The second group of institutions are DFI's (*development finance institutions like IDBI, IDFC, HUDCO, PFC, and IL&FS etc*). Institutions like IDFC have comparatively long term finance available from the Government and have introduced a portfolio of innovative financial products (*like some initial use of take out financing*). However, at present their lending behaviour has become (*for most purposes*) not much different from commercial banks.
- Bilateral and multilateral institutions have long term loans available and can offer innovative financial products (*like political risk insurance, currency risk insurance*) but their participation in lending to PPP projects is insignificant as of now

What Next?

Observations for discussion

How do we leverage Government spending in the context of FRBM constraints? “Social” vs “Economic” infra investment demands and implications on project conception & development

Institutional & Service Delivery Reforms at State/ Sector level focussing on competition, efficiency, customer service, capacity to absorb and appropriate user charges eg lessons from telecom & power

Improving infrastructure financing options:

- Risk capital, FDI, multilateral funding
- Development of domestic debt capital market
- Insurance Sector investments
- Fiscal policy to intermediate additional savings to infrastructure

Thank You



Some preliminary comments

- A bad project is a bad project!
- Companies are not primarily interested in reform or redistribution
- Although the sector is long term, companies select priorities with a 1 – 3 year horizon.
- But international expertise is transformational, even in developed markets.
- Do Finance and Expertise have to be linked?

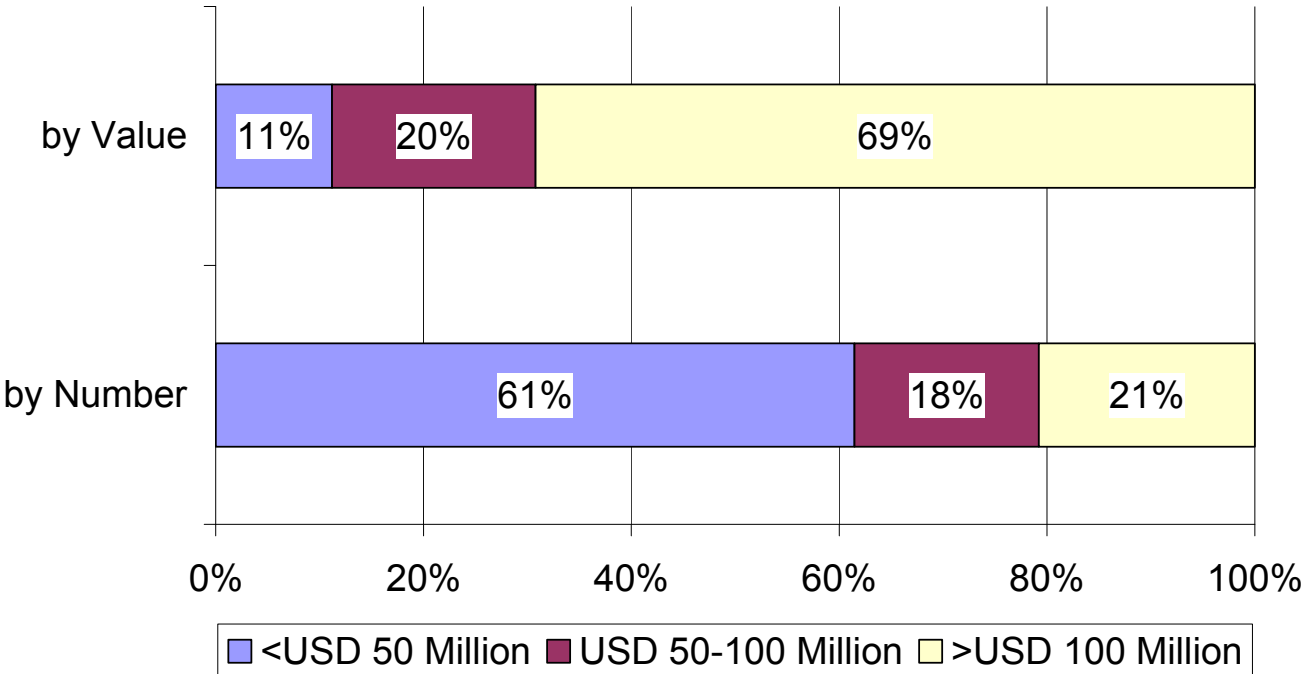
International companies' criteria

1. Scale
2. Clear framework
3. Opportunity to create value
4. Risk Allocation
5. Deals v rules
6. Good counterparties
7. Decision making
8. Advocacy
9. Returns
10. Funding and other partners

India Initiative

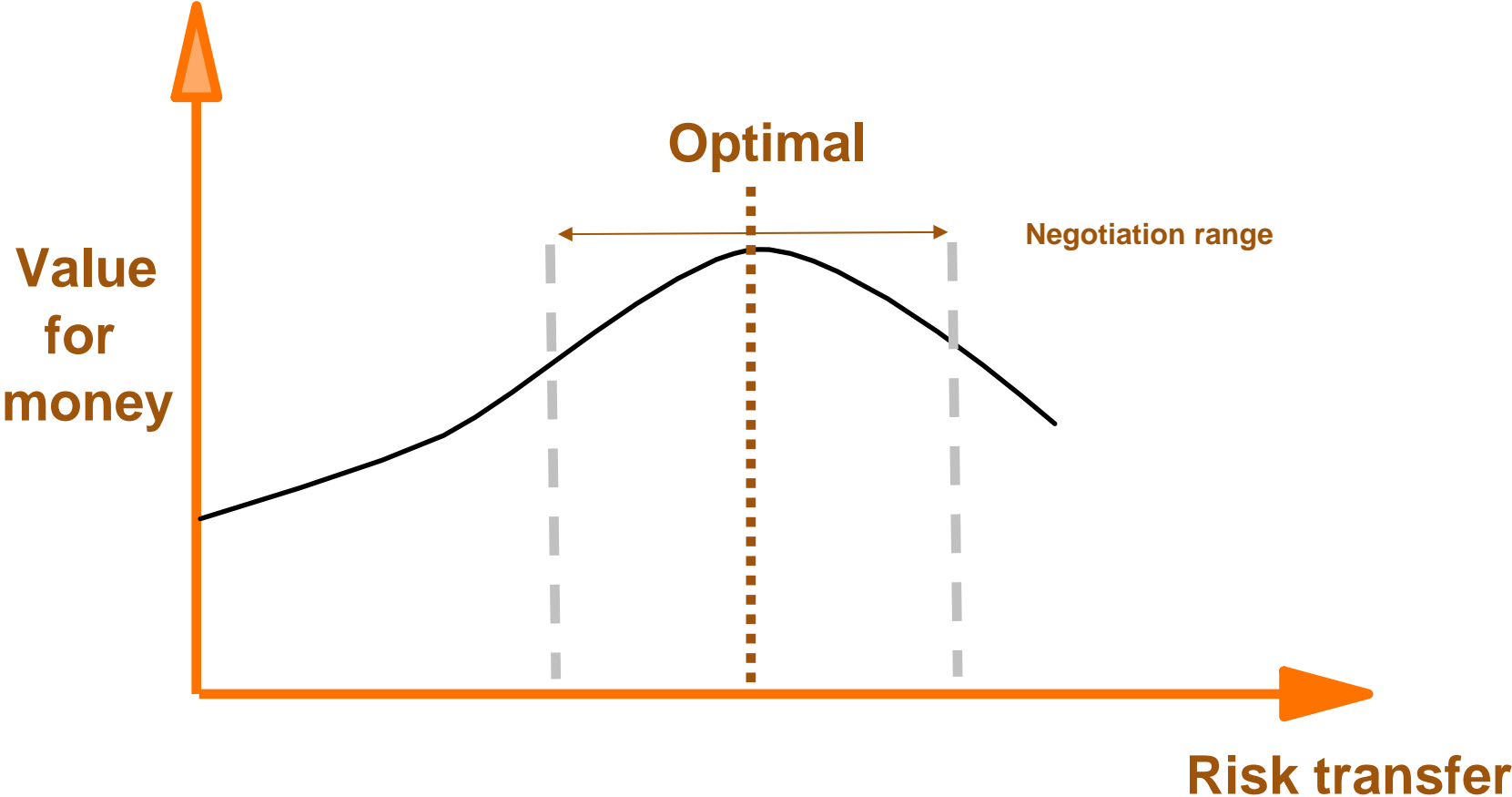
PPP Project Sizes

**Size Wise Grouping of PPP Projects by Value and Number
(Value USD15.8 billion, Number 231)**



PPP projects in India are predominantly small in size (*less than USD 50 million*) by number of projects and these small projects are able to reach financial closure without much difficulty (*given that they are viable and carry reasonable levels of risk*).

Risk allocation



Risk allocation (cont'd)

"Risks should be allocated to the party best able to manage them"



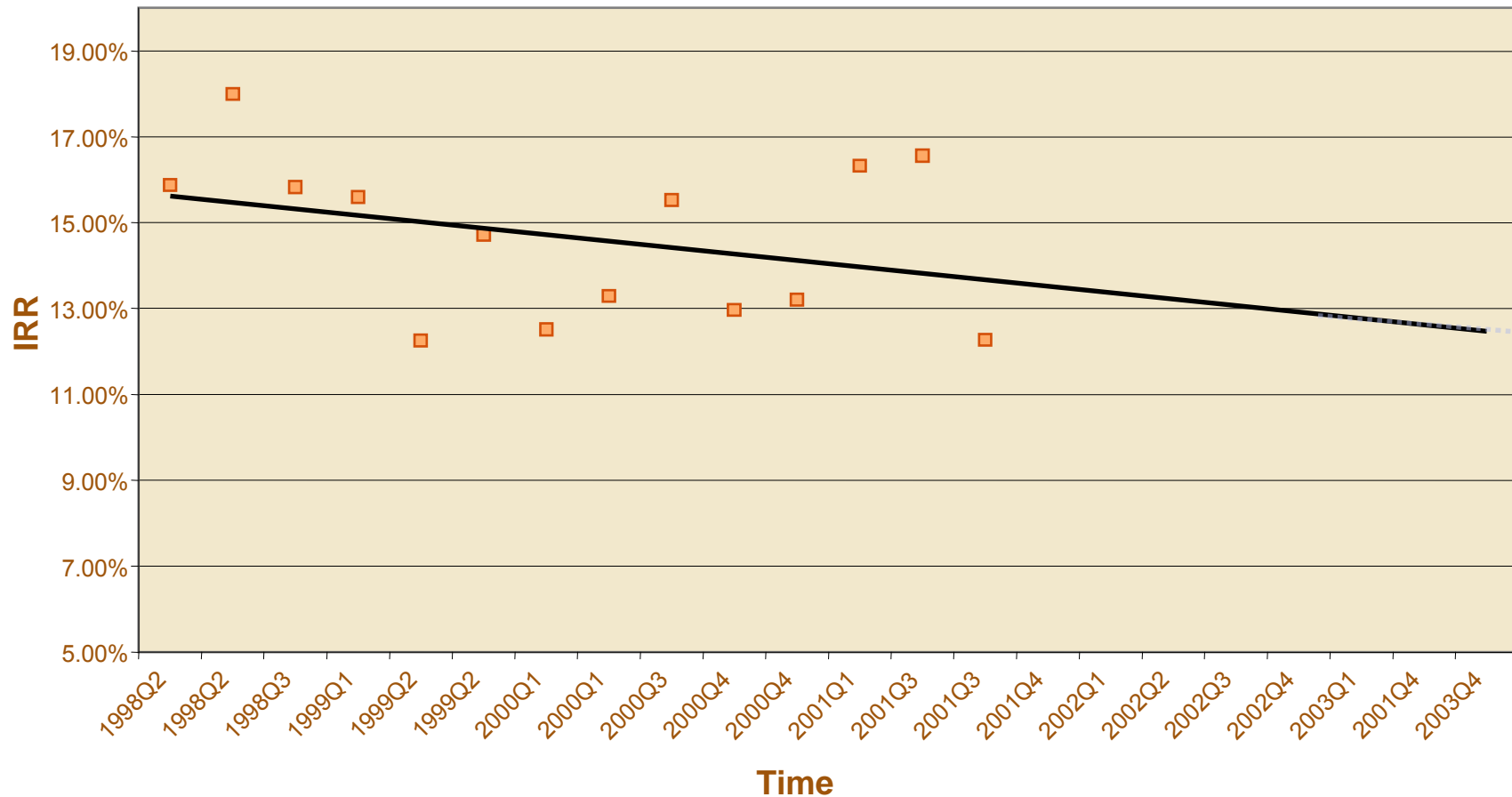
- Outline planning permission
- Discriminatory regulatory risk

- Volume risk
- Inflation risk
- General regulatory risk
- Force majeure

- Detailed planning permission
- Design
- Construction
- Commissioning
- Operating performance
- Project finance
- Technology obsolescence

Required returns

Typically reflect increased confidence and competition over time



Source: PricewaterhouseCoopers study for the UK Government