

Making Cross-Border Partnerships Work

Following are excerpts from the paper presented by Prof. Poonam Kumar, Chairperson, Mega Ace Consultancy at the India Infrastructure Investment Forum 2007; organised by the Confederation of Indian Industry (CII) in New Delhi on January 15-16, 2007. The Theme of the Forum was Policies, Opportunities and Financing Models for Power, Transport & Logistics and Urban Development. The Seminar was held in partnership with the Commonwealth Business Council, U.K.

The Economic Survey 2005-06, has estimated the investment requirements as USD 38.30 billion in the National Highways sector by 2012; USD 8.91 billion for Airports by 2010 and USD 11.13 billion for Ports by 2012. A substantial share of this investment is expected to come from the private sector. It has been estimated that India has the potential to absorb USD 150 billion of FDI in the next five years in the infrastructure alone.

Infrastructure development is a key theme in India's economic policy, given its linkages with GDP growth and trade expansion. The thrust of infrastructure policies in the nineties has been the gradual decontrol and privatization of core infrastructure services such as power, telecommunication, airports, roads and ports, which were under government monopoly. Major reforms have been undertaken in respect of power, telecom, roads and civil aviation, allowing private and foreign ownership and the entry of institutional finance on a commercially viable basis. The Government has resolved impediments and created the legal mechanisms to pave way for private ownership of infrastructure assets, foreign direct investment, autonomous regulatory authority, fiscal incentives such as tax-holidays and exemptions for funds invested in infrastructure, and special purpose vehicles to lease out, manage and transfer ownership of assets under Build-Operate-Transfer and other models.

India will be much more integrated with the global economy and will be a major player in terms of trade, technology and investment.

Private activity in infrastructure showed mixed results in 2005. Investment commitments to infrastructure projects with private participation grew in 2005 but the projects reaching financial closure fell. Global Infrastructure Finance (Developing Countries) – As per World Bank Staff Estimates (PPI-database 2005) total infrastructure Investment needs in developing countries estimated to be US\$ 500 to US\$ 600 billion per year (5% to 6% of GDP). Annual investments made in Infrastructure in recent years (public sector dominance) – 40% is actually being spent on annual infrastructure investments funded by -70% public funds, 20% private funds and 10% donors.

In the past decade, many developing countries initiated major infrastructure sector reforms that separated policy making from service delivery and promoted projects with various forms of private sector participation or public private partnerships (PPPs).

To bridge the infrastructure deficit in the country, government of India is also actively pursuing Private-Public Partnerships [PPPs]. To promote PPPs in sectors like power, ports, highways, airports, tourism and urban infrastructure, several initiatives have been taken during the last three years.

PPP is still a nascent concept in India, and expertise at the level of project authorities, both at the central and state levels, is limited. The awareness of concerns and issues relating to PPPs is still lacking and not evenly spread across the different States. To promote the PPP programme, all State Governments and Central Ministries have been advised to set up a PPP Cell with a senior level officer deputed as PPP nodal officer. It is proposed to provide assistance to states in this regard. Technical assistance (TA) from the Asian Development Bank has been received for overall capacity building in State Governments for PPPs. The TA would fund strengthening of the PPP Cell of the respective State governments, including hiring of consultants and training of personnel.

The appraisal mechanism for the PPP projects has been streamlined to ensure speedy appraisal of projects, remove red tape, adopt international best practices and have uniformity in guidelines. A Public Private Partnership Appraisal Committee (PPPAC) responsible for the appraisal of PPP projects in the central sector has also been set up. 29 proposals have so far been received from

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(Left - Right) Prof. Poonam Kumar, Chairperson, Mega Ace Consultancy seen with Dr. Mohan Kaul, Director General, Commonwealth Business Council; Dr. Jamshed J. Irani, Past President, CII & Richard Lambert, Director General, Confederation of British Industry at the India Infrastructure Investment Forum 2007



different central ministries for clearance by PPPAC, out of which 15 proposals involving a capital cost of Rs. 8,280 crore have been approved.

These projects were implemented under a range of approaches varying from management contracts to concessions to Greenfield build-operate-transfer or build-operate-own projects. Another key aspect of private participation is the impact on the delivery of infrastructure services, and whether there are negative consequences for other important social goals, such as equity.

Despite considerable progress, private participation or public private partnership arrangements still face several challenges. These challenges typically involve tariff setting and adjustment, regulatory independence or dispute over contractual provision.

There were total 837 projects (each costing Rs. 20 crore and above) at the end of June 2006, with an estimated investment of about Rs.3,69,499 crore spread over 16 sectors: atomic energy, civil aviation, coal, fertilizers, mines, information and broadcasting, steel, petroleum, power, railways, road transport and highways, shipping and ports, telecommunications, urban development, water resources, and health and family welfare. 91 projects costing Rs. 27,730 crore spread over 13 sectors were completed in year 2005-06 and the expenditure reported for these projects was Rs. 22,579 crore.

Trade Facilitation is dependant on availability and quality of infrastructure. Future of India's infrastructure lies with success of Private Public Partnerships. Potholed roads and clogged airports to frequent power blackouts and creaking urban transportation would appear to be disheartening and acute shortcomings. The challenges are enormous, and the pace of their resolution is slow.

There are several challenges we face in India for Infrastructure developments, which is estimated to require additional spending equal to 3.4 percent of gross domestic product. That's almost three-quarters of what India is spending on transportation, power, water, irrigation, communications and storage capacity in a year. However, challenges before us are creating the frame works and processes for awarding and execution of contracts, land acquisition amongst others.

The last decade has seen a paradigm shift in the delivery of public infrastructure in Asia. Infrastructure development and delivery has moved into private hands with governments shifting their focus from being an owner producer to a facilitator-regulator of private sector infrastructure activities.

PPPs for delivery of physical infrastructure are of great significance. Equally significant is collaboration of local players with international corporates. Some of the international corporates bring with them decades of experience in state of art projects. The Channel rail tunnel between the UK and France is the largest BOT project, but with characteristics of BOOT, attempted anywhere in the world. Euro tunnel whose shares are listed in London and Paris operates the tunnel. The idea of a road tunnel between England and France was first suggested to Napoleon in

1802. It was not until nearly two centuries later that the dream became reality when digging began on the Channel Tunnel or 'Chunnel' as it was known in its construction period. The USD 15 billion link is one of Europe's biggest infrastructure projects to date. I would like to highlight another interesting case of BOOT. In the case of the 'Hong Kong Second Harbour Crossing'

Project, the contract was awarded to a Japanese Contractor Kumagai Gumi based on his innovative financing pattern and not on best of engineering or cost considerations. Real estate income accounting for 10 per cent of the means of finance of the total project cost moved the tilt towards this contractor. These world class companies are looking at the opportunity India has to offer. They are keen on associating with the local players entering into partnership to ensure the delivery models for projects are customized to the requirement and needs of the country.

Working out an effective partnership is always a challenge. Transparency, patience, adaptability, use of creativity to arrive at solutions to solve local problems are important ingredients for their success. There are huge gaps between initial submission of Expression of Interest to the final awarding of contracts in most of the infra projects. Gestation period of infrastructure projects is huge. Partners need to have utmost faith with each other and ensure that they have the same values and ethos which would help them to go through all the hurdles and work with a very clear cut focus and goal.

There have been very innovative mechanisms for delivery of both physical and social infrastructure. Infrastructure is particularly vulnerable to corruption, which degrades quality, increases costs, keeps honest investors away and undermines public trust and public support to PPPs. Strengthened financial management and procurement systems help prevent some abuses at project level. Improved governance and the rule of law raised the awareness of decision makers and the general public.

Corruption needs to be addressed within a PPP Program in an explicit manner. Competitive bidding, disclosure policies, transparent process and public reporting do not guarantee that corruption will be eradicated but limits substantially the events of occurrence. Under normal circumstances, direct negotiations and non-transparent unsolicited bids processes increases the risk of corruption. The World Bank is committed to assist client countries in the design and development of their PPP Programs. Only through effective partnering and increase mobilization of private resources will we be able to make a 'dent' in the growth and poverty reduction agenda. It is not easy and certainly more demanding than a pure public or a pure private investment to increase the engagement in the provision of public services, more particularly to the poor, PPPs need to be the mainstream and important policy tool to provide public services The most important lesson to learn from the experiences of other countries is that the development of infrastructure is a long, grinding process that calls for years of hard work and patience.

Thank you,

Mumbai Office :
68-B, Mittal Tower,
Nariman Point
Mumbai 400 021, India
Tel: +91-22-22812298, 22815126
Fax: +91-22-22812305

London Office :
10, Middle Field,
St. Johns Wood,
London NW8 6NE, U.K.
Tel: +44 207 289 0296

www.mega-ace.com