21

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Institutionalisation of Public Private Partnership (PPP) Process in the Government

Pradeep Mehta is one of the best public policy advocates that I have met in my long career in the government. His policy-relevant advocacy has been consistent and well informed, and has impacted public policy in many areas. Starting his public policy career as a consumer activist in 1980s, over time he has become a public intellectual, and actively engaged in policy research and advocacy through CUTS, a non-government think-tank and action tank which he founded and lead since 1983. His focus has been on economic policy issues with a thrust on the demand side, because of his background in consumer protection issues.

His work has not been restricted to India but has crossed several boundaries. One of his projects on investment policies running across four continents in mid 1990s was a learning exercise for me, on which I had served as one of its advisers. His advocacy on trade liberalisation and competition reforms in the developing world as part of the industrial policy rubric is probably unmatched, of which I have been a close witness. Refreshingly, unlike many other NGO leaders, he would not take a negative stand on liberalisation but actively support the same with a parallel thrust on optimal regulation.

One critical issue of investment policy is to enable countries to attract huge sums of money from the private sector to build and sustain their infrastructure. Treasury funding is limited, while the infrastructural needs are expanding every day.

Globally, infrastructure spending is being seen as the major driver for economic growth and satisfaction of basic needs. National governments are taking steps to increase liquidity in the financial sector for increased lending that, it is expected, would increase infrastructure spending, and in turn infuse the economies with some confidence.

Even though Indian economy is likely to continue to grow with ups and downs, there is considerable diffidence in the financial institutions and despite several rounds of packages by the Reserve Bank of India (RBI) and the government, requisite liquidity is not being injected in the economy. Infrastructure projects are also facing the crunch.

It is estimated that ₹ 20,01,776 crore (at 2006-07 prices) or US$ 488 bn would be required for investment in the infrastructure sectors during the next five years. The latest estimates are that we need around US$ 1 tn. Although significant share of this investment is expected from the public sector, it is estimated that nearly 50 per cent of the investment must come from the private sector. Provided the process issues can be resolved by the different arms of the government, public-private partnerships (PPPs) present the most viable option for attracting private capital as well as optimum efficiencies.

What Prevents the Private Sector to Invest and the Financial Institutions (FIs) to Lend to PPP Projects?

The Government of India has identified six constraints:

- Policy and regulatory gaps, specially relating to specific sector policies and regulations.
- Inadequate availability of long term finance both equity and debt.
- Inadequate capacity in public institutions and public officials to manage PPP processes.
- Inadequate capacity in the private sector—both in the form of developer/investor and technical manpower.

- Inadequate shelf of bankable infrastructure projects that can be bid out to the private sector. and
- Inadequate advocacy to create greater acceptance of PPPs by the public at large.

To address these constraints and create an enabling framework for PPPs, several initiatives have been under taken by the government related to the policy and regulatory environment. To address the financing needs of these projects, various steps have been taken like the setting up of India Infrastructure Finance Company and launching of a Scheme for Viability Gap Funding (VGF) of PPP projects.

Setting up of infrastructure funds is also being encouraged and multilateral agencies such as Asian Development Bank (ADB) and International Finance Corporation (IFC) have been permitted to raise Rupee bonds and carry out currency swaps to provide long term debt to PPP projects. Recently, India Infrastructure Finance Company Limited (IIFCL) has also been empowered to provide refinance to FIs for infrastructure lending.

To meet the capacity building requirements in the sector, necessary measures are being taken, with technical assistance from the World Bank and the ADB, to provide experts to the state governments and central ministries who are working as part of the teams of the PPP nodal officers. The Department of Economic Affairs (DEA) has also notified a panel of technically qualified transaction advisers to assist in PPP transaction management. In addition, manuals on PPPs to guide the users are being developed and training programmes for public officials undertaken. In addition, there is a need to build long term capacity building efforts, such as one being led by Pradeep through a new initiative, the CUTS Institute for Regulation & Competition. We need over a dozen of such institutions in our country to be able to meet the needs of enhancing knowledge and capacity.

While quality advisory services are fundamental to procuring affordable, value-for-money PPPs, the costs of PPP transactions, and particularly the costs of transaction advisers, are significant. Considering the risk of failure of the bid, in which case the entire cost of project development is to be written off, the sponsoring authorities either depend on grossly inadequate internal resources to manage the transaction, including preparing of legal documents, or try to save on cost by hiring sub-standard consultants.

For providing financial support for quality project development activities 'India Infrastructure Project Development Fund' (IIPDF), with an initial contribution of ₹ 100 crore has been created in the DEA.

Whereas, all these initiatives have gone a long way in creating greater awareness about PPPs within the central ministries and the state governments, there is still a long way to go before PPPs get mainstreamed in the public spending process. The work being done by the DEA and by other agencies, such as the Planning Commission has only scratched the surface, considering that PPPs need to be internalised not only at the Central and the State level but also by Municipal Governments.

Public resistance to PPPs seen as another form of privatisation and the fear that the 'profit motive' would drive up the cost of delivery of services has also slowed down the mainstreaming of PPPs. There is, therefore, need to provide focused attention to some of the following activities.

Advocacy

There is need for sustained policy advocacy for creating environment conducive for PPPs through policy research and advocacy. This would be necessary not only at the central government level but also at the state and the local level. This would include area of legal and regulatory reform and policy setting. This would also include developing new accounting practices to factor PPPs in public accounting.

It is also imperative that a sustained and intensive campaign be undertaken to create awareness about PPPs and its benefits for the stakeholders, including the consumers and the public at large. An effective communication strategy is needed for a greater acceptance of PPPs as part of public advocacy.

One of the methods for implementing communication strategy is to organise conferences and seminars where policies related to PPPs in specific sectors can be discussed and debated. As for wider communication with the public, content must be developed for dissemination with the help of media.

This is another area where Pradeep has been making continuing awareness generating efforts to speak to people at large about the pluses and minuses of PPPs.

Capacity Building

There is need for managing the entire gamut of capacity building activities that include training needs assessment, content development, training of trainers, working with the state level and the central training institutions, and promoting autonomous organisations to develop capacities in this area. The expertise developed in Indian Institute of Managements (IIMs), Indian Institute of Technologies (IITs) and other institutions, such as the PPP Capacity Building Trust set up by the Infrastructure Development Finance Company (IDFC) should be leveraged. Given India's access to grant funding from multilateral organisations, expertise can also be accessed from different research institutes and universities.

Investment Promotion

Attracting private developers to bid for PPP projects from within the country and abroad would be a major challenge, especially when the deal flow increases considerably. There is need to develop a focussed investment promotion strategy for PPP projects and for this the outreach of various apex industries associations, and bilateral and multilateral platforms should be leveraged for marketing projects in ports, roads, power, airports, urban infrastructure and other sectors.

Project Implementation Assistance

Once the deal has been done and the private developer has been given the project, the process of getting statutory and other approvals from different government agencies at the central and the state level is complex, time consuming and cumbersome. The DEA has prepared an excellent report on statutory clearances required for PPP projects, which can be reviewed periodically to see how better the process can be.

It is revealing how time consuming it still is to get the approvals from the government agencies even though most of the Model Concession Agreements (MCAs) put the onus to getting these clearances on the sponsoring authorities. There is a need for also considering institutional arrangement on lines of the Public-Private Partnership Appraisal Committee (PPPAC) that can help the private sector partners through different ministries and governments.

PPP Statistics Cell

There is a need to collect and monitor data relating to PPP projects in a systematic and useful manner. Although the web enabled PPP database created by DEA captures data on more than 40 parameters, there is need for more comprehensive management of PPP data.

There is a massive task cut out for the Government of India, and more specifically for the Finance Ministry as PPPs entail contingent liabilities that need to be identified and capped. Risk management over the concession period is the essence of PPPs as an element of public finance. Without a more defined strategy and time bound implementation programme, it may be difficult to achieve the targets that the government has set out for itself. It is certain that to be able to achieve its objectives Government must work closely with the private sector and the civil society. Pradeep epitomises the best that we can hope for in the last but equally important segment.