सत्यमेव जयते

Government of India
Ministry of Finance
Department of Economic Affairs

Public Private Partnerships

Creating an Enabling Environment for State Projects

INFRASTRUCTURE
Building for Growth

CII
Confederation of Indian Industry

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Contents

Overview

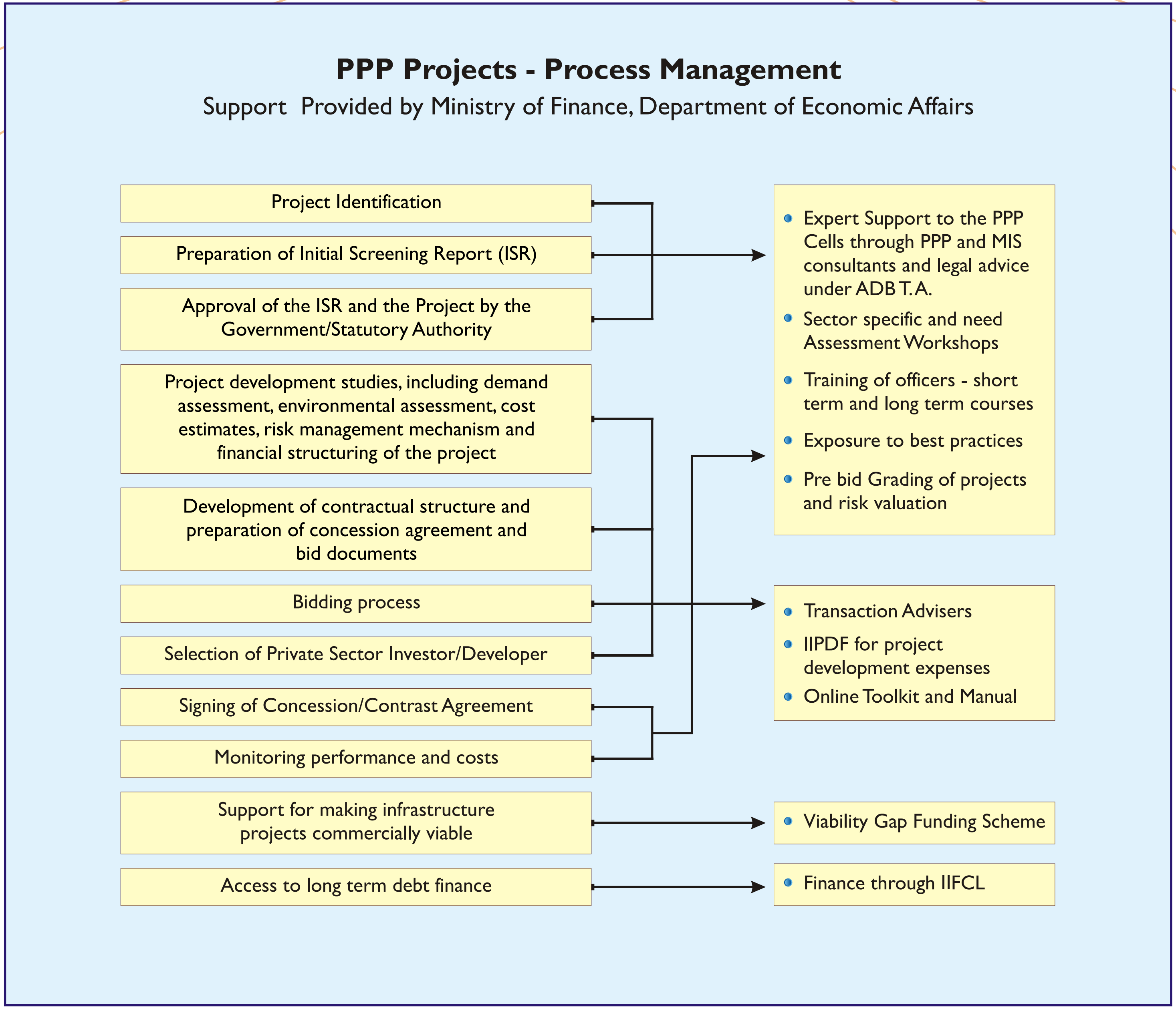
Provision of quality infrastructure is a pre-requisite for the economy to achieve a higher growth trajectory on a sustained basis. To achieve a new vision of growth, which is broad based and inclusive, Planning Commission has estimated that the total investment in infrastructure has to increase from 4.5% to around 7.5% of the GDP in the Eleventh Five Year Plan. During the Eleventh Five Year Plan (2007-2012), projected investments of over US$ 320 billion at 2005-06 prices are envisaged in the infrastructure sector, which have been revised by the Committee on Infrastructure Financing in its report of May 2007 to US$384 billion at 2005-06 prices, equivalent to US $ 475 billion at current prices.

The investment requirements are enormous and are not likely to be met from the public sector alone. Attracting private capital in this critical sector is recognised as a key strategy to meet the resource deficit. Consequently, Public Private Partnership (PPPs) are being encouraged as the preferred mode for execution and operation of infrastructure projects. PPPs offer a number of advantages in terms of enhancing the ability to take a larger shelf of infrastructure investments, introducing specialised expertise and cost reducing technology as well as bring in efficiencies in operation and maintenance.

The overall response to the call to promote PPP as the preferred mode for the implementation of infrastructure is encouraging. The progress is, however, slow and has been limited to a few sectors. Investment through the PPP mode needs to increase substantially in the States and across sectors.

While encouraging PPPs, five constraints have been identified:

- ★ Weakness in enabling policy and regulatory framework in most of the infrastructure sectors continues to be a constraint. There is need to make sector policies and regulations PPP friendly. A large number of these projects are in the States and without the active participation of the States it would not be possible to achieve desired results.
- ★ The market presently does not have adequate instruments and capacity to meet the long-term equity and debt financing needed by infrastructure projects.
- ★ There is also lack of capacity in public institutions and officials to manage the PPP process. Since these projects involve long term contracts covering the life cycle of the infrastructure asset being created, it is necessary to manage this process to maximise returns to all the stakeholders.
- ★ There is a lack of shelf of credible, bankable infrastructure projects, which could be offered for financing to the private sector. Though initiatives have been taken,


PPP Projects - Process Management
Support Provided by Ministry of Finance, Department of Economic Affairs
Project Identification
Preparation of Initial Screening Report (ISR)
Approval of the ISR and the Project by the Government/Statutory Authority
Project development studies, including demand assessment, environmental assessment, cost estimates, risk management mechanism and financial structuring of the project
Development of contractual structure and preparation of concession agreement and bid documents
Bidding process
Selection of Private Sector Investor/Developer
Signing of Concession/Contrast Agreement
Monitoring performance and costs
Support for making infrastructure projects commercially viable
Access to long term debt finance
Expert Support to the PPP Cells through PPP and MIS consultants and legal advice under ADB T.A.
Sector specific and need Assessment Workshops
Training of officers - short term and long term courses
Exposure to best practices
Pre bid Grading of projects and risk valuation
Transaction Advisers
IIPDF for project development expenses
Online Toolkit and Manual
Viability Gap Funding Scheme
Finance through IIFCL

both by Central Ministries as well as the States', to develop PPP projects these tend to be limited to a few sectors and have demonstrated a marked lack of consistency.

- There is a lack of capacity in the private sector to fully meet the challenge of investing in a very large number of projects as diverse as solid waste management to terminals in ports, modernization of new airports, building power generating plants or transmission systems and convention centres and also in the form of adequate, qualified and trained manpower for such projects.

To address these constraints, Government of India has taken measures to create enabling framework for PPPs by addressing issues relating to policy and regulatory environment. Progressively more sectors have been opened to private and foreign investment, levy of user charges is being promoted, regulatory institutions are being set up and strengthened, fiscal incentives are given to infrastructure projects, standardised contractual documents including the Model Concession Agreement are being notified and approval mechanism for PPPs in the Central sector has been streamlined through setting up of PPP Appraisal Committee (PPPAC).

To address the financing needs of these projects, various steps have been taken like setting up of India Infrastructure Finance Company and launching of a new Scheme to meet Viability Gap Funding (VGF) of PPP projects. Setting up of infrastructure funds are also being encouraged and multilateral agencies such as ADB have been permitted to raise Rupee bonds and carry out currency swaps to provide long term debt to PPP projects. Merchant Bankers and multilateral agencies are also being encouraged to provide credit enhancement services for raising cheaper money from market, ECB norms have been eased and the overall limit have been raised. Indian Financial Institutions are also being encouraged to develop an appetite for financing instruments such as take-out finance.

To meet the capacity building requirements in the sector, with support from Technical Assistance from World Bank and Asian Development Bank, necessary measures are being taken to implement various Schemes like assisting the State Governments and Central Ministries in hiring consultants, preparation of a manual on PPPs to guide the users and undertake training programmes for public officials. A panel of Transaction Advisers has also been shortlisted. In addition, State Governments are also being provided with technical assistance in the form of in-house PPP experts to manage the process for project development. This assistance would include provision of a panel of select law firms to provide legal support.

The costs of procuring PPPs, and particularly the costs of Transaction Advisors, are significant, while quality advisory services are fundamental to procuring affordable, value-for-money PPPs. For providing financial support for quality project development activities to the States and the Central Ministries a corpus fund titled 'India Infrastructure Project Development Fund' (IIPDF), with initial contribution of Rs. 100 crore is being set up.

To build a virtual market place for the PPP stakeholders, DEA has created a PPP website that is a one stop site for all information relating to PPP initiatives in India. It carries information relating to PPP programmes in the States and Central Ministries. The site carries a link to database on PPP projects in India as well as all policy issues on PPP projects. It indicates the status of the proposals received by the PPP cells under the VGF scheme and PPP Appraisal Committee.

These interventions are the beginning. The task of mainstreaming PPPs in infrastructure is humongous and would require continuous and rapid response to the changing aspirations of the people and pressures of a high performing economy.

We would work closely with all the stake-holders including the State Government to expand the horizon of PPPs in infrastructure development of the Country.

Scheme for Financial Support to Public Private Partnerships in Infrastructure :
Viability Gap Funding (VGF) Scheme

The Viability Gap Funding Scheme of the Government of India provides financial support in the form of grants, one time or deferred, to infrastructure projects undertaken through public private partnerships with a view to make them commercially viable. The Scheme is administered by the Ministry of Finance.

Eligibility

The PPP projects may be posed by the Central Ministries, State Governments or Statutory Authorities (like Municipal Authorities and Councils) which own the underlying assets. The project should meet the following criteria:

- The PPP project should be implemented, i.e. developed, financed, constructed, maintained and operated for the Project term by a Private Sector Company to be selected by the Government or a statutory entity through a transparent and open competitive bidding process. The criterion for bidding shall be the amount of viability gap funding required by the Private Sector company for implementing the project where all other parameters are comparable.
- The PPP project should be from one of the following sectors:
  - Roads and bridges, railways,[1] seaports, airports, inland waterways
  - Power
  - Urban transport, water supply, sewerage, solid waste management and other physical infrastructure in urban areas
  - Infrastructure projects in Special Economic Zones
  - International convention centers and other tourism infrastructure projects

  Provided that the Empowered Committee may, with approval of the Finance Minister, add or delete sectors/sub-sectors from the aforesaid list.
- The project should provide a service against payment of a pre-determined tariff or user charge.
- The concerned Government/statutory entity should certify with reasons the following:
  - The tariff / user charge cannot be increased to eliminate or reduce the viability gap of the PPP
  - The Project Term cannot be increased for reducing the viability gap
  - The capital costs are reasonable and based on standards and specifications normally applicable to such projects and the capital cost cannot be further restricted for reducing the viability gap
- This scheme will apply only if the contract/ concession is awarded in favour of a private sector company in which 51% or more of the subscribed and paid up equity is owned and controlled by a private entity.

[1] Railway projects currently are not amenable to operation by a private sector company, but this eligibility criterion may be relaxed

The Sponsoring Authority of a PPP project may, in case a doubt exists regarding admissibility of the project under the Scheme, submit the project concept to the Department of Economic Affairs in the prescribed proforma. The Department of Economic Affairs would indicate to the Project Authority within seven working days of the receipt of the proforma whether it could be posed for consideration of the Empowered Institution.

Government Support

- The total Viability Gap Funding under the Scheme shall not exceed twenty percent of the total project cost. The Government or statutory entity that owns the project may, if it so decides, provide additional grants out of its budget up to further twenty percent of the total project cost.
- Viability Gap Funding under the Scheme is normally in the form of a capital grant at the stage of project construction. Proposals for any other form of assistance can be considered by Empowered Committee along with approval of Finance Minister on a case-by case basis.

Viability Gap Funding	Sanctioning Authority
Upto Rs 100 crore	Empowered Institution (see box 1)subject to budgetary ceilings indicated by Finance Ministry
Rs 100 Crore to Rs 200 Crore	Empowered Committee (see Box 1)
More than Rs 200 crore	Empowered Committee with approval of the Finance Minister

Approval Process

- The proposal should be sent (in six copies, both in hard and soft form) to the PPP Cell of the Department of Economic Affairs in the prescribed format. The proposal should include copies of all project agreements and the project report.
- The proposal will be circulated by the PPP Cell to all members of the Empowered Institution for their comments. All comments received within four weeks shall be forwarded by the PPP Cell to the concerned Administrative Ministry, State Government or statutory authority, as the case may be, for submitting a written response to each of the comments. In case the project is based on a model concession agreement, the comments will be furnished within two weeks.
- The proposal, along with the project report, concession agreement and supporting agreements/ documents, together with the comments of the respective Ministries and the response thereto, will be submitted by the PPP Cell to the Empowered Institution for consideration and 'in principle' approval. While submitting the proposal to the Empowered Institution, the PPP Cell will indicate whether the proposal conforms to the mandatory requirements of the scheme. Deficiencies, if any, will be indicated in the note of PPP Cell.

Box 1: Sanctioning Authorities

Cabinet Committee on Economic Affairs in its meeting of July 25, 2005 approved the Scheme for support to Public Private Partnerships in Infrastructure. In pursuance of the decision of the Cabinet, it has been decided to constitute an Empowered Committee and Empowered Institution for approving financial assistance to such projects which satisfies all the eligibility criteria indicated in the Scheme.

The composition of Empowered Committee will be as follows:

i. Secretary (Economic Affairs)

ii. Secretary (Planning Commission)

iii. Secretary (Expenditure)

iv. Secretary of the line Ministry dealing with the subject

The Empowered Committee will:

a. Sanction Viability Gap Funding up to Rs. 200 crore (Rs. Two hundred crore) for each project subject to the budgetary ceilings indicated by the Finance Ministry. Amounts exceeding Rs. 200 crore may be sanctioned by the Empowered Committee with the approval of Finance Minister

b. Determine the appropriate formula that balances needs across sectors in a manner that broad bases the sectoral coverage and avoids pre-empting of funds by a few large projects

c. Determine the inter-se allocation between any on-going Plan Scheme providing Viability Gap Funding and this Scheme

d. Provide clarifications or instructions relating to eligibility of a project for such support as and when requested by Empowered Institution.

The Composition of the Empowered Institution is as follows:

i. Additional Secretary (Economic Affairs)

ii. Additional Secretary (Expenditure)

iii. Representative of Planning Commission not below the rank of Joint Secretary

iv. Joint Secretary in the line Ministry dealing with the subject

v. Joint Secretary, DEA - Member Secretary

The Empowered Institution will:

a. Sanction projects for Viability Gap Funding upto Rs. 100 crore (Rs. One hundred crore) for each eligible project subject to the budgetary ceiling indicated by the Finance Ministry

b. Consider other proposals and place them before the Empowered Committee

- ★ The Empowered Institution will either approve the proposal in principle (with or without modifications) or advise the concerned Ministry, State Government or Statutory Authority, as the case may be, to provide additional clarifications/ information or to make necessary changes for further consideration of the Empowered Institution.
- ★ Approval under this Scheme will be for the purposes of this scheme only. All other statutory, financial or administrative approvals shall be obtained as applicable. For projects owned by the Central Government or its statutory entities, approval of PPPAC shall also be obtained in accordance with the guidelines issued by the Department of Economic Affairs. However, these approvals may be obtained simultaneously in order to save on time.

Appraisal and Monitoring by Lead Financial Institution

- ★ The PPP project shall be awarded within four months from the date on which eligibility of the project is conveyed by the Empowered Institution to the concerned Government/statutory entity.The Empowered Institution may extend this period if an application is made by the concerned entity.
- ★ Appraisal of the project will be carried out by the Lead Financial Institution (LFI) within three months from the date of bid award and presented for consideration and approval of the Empowered Institution.
- ★ The Lead Financial Institution will be responsible for regular monitoring and periodic evaluation of project compliance with agreed milestones and performance levels particularly for the purpose of disbursement ofViability Gap Funding.

Disbursement of Grant

- ★ The Empowered Institution, the Lead Financial Institution and the Private Sector Company shall enter into a tripartite agreement for the purposes of this Scheme.
- ★ The Empowered Institution will release the grant to the Lead Financial Institution as and when due.
- ★ The Grant will be disbursed only after the Private Sector company has subscribed and expended its equity contribution required for the project and will be released in proportion to debt disbursements remaining to be disbursed thereafter.

The 'Scheme for Financial Support to Public Private Partnerships in Infrastructure' has been notified by Ministry of Finance, Department of Economic Affairs vide OM No 1/5/2005-PPP dated January 12, 2006.

For details please refer to www.pppinindia.com

Scheme for Financing Viable Infrastructure Projects through Special Purpose Vehicle :

India Infrastructure Finance Company Limited (IIFCL)

India Infrastructure Finance Company Limited (IIFCL) has been set-up with the specific mandate to play a catalytic role in the infrastructure sector by providing long-term debt for financing infrastructure projects in India. IIFCL raises funds both from the domestic as well as external markets on the strength of government guarantees.

Eligibility

- IIFCL would finance only commercially viable projects, including those PPP projects that will become viable after receiving Viability Gap Funding.
- The project should be implemented i.e. developed, financed and operated for the project term by:
  - A public sector company
  - A private sector company selected under a PPP initiative, or
  - A private sector company
- In case of railway projects, that are not amenable to operation by a private sector company, the Empowered Committee may relax the eligibility criterion relating to operation by such company.
- The projects should be from one of the following sectors:
  - Roads and bridges, railways, seaports, airports, inland waterways
  - Power
  - Urban transport, water supply, sewerage, solid waste management and other physical infrastructure in urban areas
  - Gas pipelines
  - Infrastructure projects in Special Economic Zones
  - International convention centers and other tourism infrastructure projects
- The projects are to be implemented through a Project Company set up on a non-recourse basis.
- PPP projects based on standardized / model documentation duly approved by respective government preferred. Stand alone documents may be subjected to detailed scrutiny by the IIFCL.
- Prior to inviting offers through open competitive bid, the concerned sponsoring entity may seek 'in principle approval' for financial assistance under the scheme. Actual lending by IIFCL, however, is governed by appraisal by Lead Bank before financial closure of project.

Appraisal & Monitoring by Lead Bank

The Lead Bank shall present its appraisal of the project for consideration of IIFCL, which will form the basis for approval of funding. An independent appraisal by IIFCL will not normally be required.

The Lead Bank shall be responsible for regular monitoring and periodic evaluation of project compliance with agreed milestones and performance levels especially with respect to disbursement of IIFCL funds. It has to provide periodic progress reports in form and at such times as maybe prescribed by IIFCL.

Lending Terms

- IIFCL to fund viable infrastructure projects through the following modes:
  - Long Term Debt
  - Refinance to Banks and Financial Institutions for loans granted by them, with tenor exceeding 10 years
  - Any other mode approved by the Government
- Project company will have the right to choose any of the modes of lending as above.
- The terms at which the Project Company can access long term debt shall not be inferior to the terms at which refinanced debt is available to the Project Company.
- Total lending by IIFCL not to exceed 20% of total project cost. Loans disbursed in proportion to debt disbursements from financial institutions.
- Rate of interest charged by IIFCL such as to cover funding costs including administrative costs and guarantee fees, if any.
- IIFCL to release funds to Lead Bank as and when due. Lead Bank will make disbursements on behalf of IIFCL and subsequently seek reimbursement from IIFCL.
- Recovery of loans advanced by IIFCL shall be responsibility of Lead Bank. Recovery of IIFCL loans in the same level as project debt till 80% of project debt has been recovered. Thereafter Lead Bank would assume payment risk as guarantors of IIFC loan from then onwards.
- Charge on project assets by IIFCL loan shall be equal with project debt and will continue beyond tenure of project debt till such time as principal lend by IIFCL together with interest and other charges remain outstanding.
- The IIFCL, the Lead Bank and the Project Company shall enter into tripartite agreement for the purposes of the scheme.

The 'Scheme for Financing Viable Infrastructure Projects through Special Purpose Vehicle called the India Infrastructure Finance Company Limited' has been notified by Department of Economic Affairs, Ministry of Finance vide OM No 10/12/2005-INF dated January 4, 2006.

For details please refer to www.pppinindia.com

Mainstreaming Public Private Partnerships at State Level

Recognising that strengthening the capacities of different levels of government to conceptualise, structure and manage PPPs will lead to more and better PPPs[2], Department of Economic Affairs is facilitating mainstreaming Public Private Partnerships through Technical Assistance from Asian Development Bank. The primary objective is effective institutionalization of the PPP cells to deliver their mandate through provision of 'in-house' consultancy services to each of the selected entities at the Center and State level.

Technical Assistance

The selected entities will be provided assistance for a period till December 2009 in the form of:

- One PPP Expert on an individual basis focusing on project financial analysis and risk management.
- One Management Information Systems expert (on an individual basis) focusing on information management.
- A panel of three legal experts on retainer basis (expected input: intermittent over the year but approximately 6-7 months throughout the year) to provide legal expertise on PPPs.

Eligibility

- The States wishing to avail this Technical Assistance are required to enter into an MOU with DEA detailing steps that would be taken to promote PPPs in the State.
- The MOU requires the State Government to:
  - Set up a PPP Cell as the nodal agency for processing all PPP projects in the State with a designated PPP Nodal Officer and defined scope of work
  - Develop a robust shelf of projects amenable for PPPs and adhere to the following set of targets on the level of PPPs in the State:
    - During 2007-08 bid out at least 3 projects with a total cost of Rs.750 crores or more in atleast two sectors
    - During 2008-09 bid out at least 5 projects with a total cost of Rs.1,250 crores or more in atleast three sectors
    - During 2009-10 bid out at least 5 projects with a total cost of Rs.1,500 crores or more in atleast four sectors
  - Commit to establish such policies and regulatory and governance frameworks in the identified infrastructure sectors to enable a transparent and effective private sector participation

Institutionalization of PPP skills involves
Refining the PPP policy and regulatory framework
Meeting compliance/public safety norms
Improving MIS
Improving bidding documents and procedures
Determining risk sharing
Conducting value-added research/analysis
Determining adequate monitoring arrangements

[2] 'India Building Capacities for PPPs', The World Bank, 2006.

- Prepare a 'Plan of PPP projects' in conjunction with its Annual Plan
- Commit to (i) adopt standard concession agreements for PPP projects in defined infrastructure sectors; (ii) adopt competitive bidding procedures for bidding and awarding of infrastructure projects under defined rules and procedures according to best international commercial practices and GOI guidelines; (iii) designate a State-level dispute resolution mechanism for the speedy resolution of disputes relating to PPP projects; and (iv) adopt formal State policies on environment, resettlement and social safeguards with respect to the implementation of infrastructure projects, according to best international commercial practices

Outcomes

The Technical Assistance aims to:

★ Help the participating State implement PPP schemes effectively and efficiently.

★ Enhance capacity of PPP cells in participating entities to prepare, evaluate, and appraise PPPs in infrastructure.

★ Significantly improve monitoring of overall progress in PPPs in infrastructure at both central and state levels through well-knit databases.

★ Increase awareness among potential private sector partners about the project cycle of PPP projects in infrastructure, and the expectations of Government with respect to value for money.

★ Over the long term, an increase in private sector participation in infrastructure development and management throughout the country.

India Infrastructure Project Development Fund (IIPDF)

The Finance Minister in the Budget Speech for 2007-08 announced in the Parliament the setting up of a India Infrastructure Project Development Fund (IIPDF) in Department of Economic Affairs, Ministry of Finance, Government of India with an initial corpus of Rs. 100 crore for supporting the development of credible and bankable Public Private Partnership projects that can be offered to the private sector.

The IIPDF will be available to the Sponsoring Authorities for PPP projects for the purpose of meeting the project development costs which may include the expenses incurred by the Sponsoring Authority in respect of feasibility studies, environment impact studies, financial structuring, legal reviews and development of project documentation, including concession agreement, commercial assessment studies (including traffic studies, demand assessment, capacity to pay assessment) etc. required for achieving Technical Close of such projects, on individual or turnkey basis, but would not include expenses incurred by the Sponsoring Authority on its own staff.

The Sponsoring Authority will, thus, be able to source funding to cover a portion of the PPP transaction costs, thereby reducing the impact of costs related to procurement on their budgets.

Eligibility

- The proposals for assistance under the Scheme would be sponsored by Central Government Ministries/Departments, State Governments, Municipal or Local Bodies or any other Statutory Authority.
- To seek financial assistance from the IIPDF it would be necessary for the Sponsoring Authority to create and empower a PPP Cell to not only undertake PPP project development activities but also address larger policy and regulatory issues to enlarge the number of PPP projects in Sponsoring Authorities' shelf.
- The IIPDF will finance an appropriate portion of the Transaction Advisor costs on a PPP project where such Transaction Advisors are appointed by the Sponsoring Authority through a transparent system of procurement under a contract for services.

Government Support

- IIPDF will contribute upto 75% of the project development expenses to the Sponsoring Authority as an interest free loan. 25% will be co-funded by the Sponsoring Authority.

- On successful completion of the bidding process, the project development expenditure would be recovered from the successful bidder. However, in the case of failure of the bid, the loan would be converted into grant. In case the Sponsoring Authority does not conclude the bidding process for some reason, the entire amount contributed would be refunded to the IIPDF.

The draft Guidelines for the IIPDF have been formulated and are pending final approval.

Transaction Advisers for PPP Projects

Quality transaction management services from qualified firms having skills and experience to provide both commercial/financial and legal services in support of PPP transactions can help the Sponsoring Authorities make implementation of PPP projects much smoother and efficient.

The Government has pre-qualified a panel of firms through International Competetive Bidding. The shortlisted consultants have been evaluated for their capability and experience in discharging a lead role in PPP transactions. The panel is intended to:

- ★ Streamline the tendering process for the engagement of transaction advisers for PPPs.
- ★ Enable fast access to firms that have pre-qualified against relevant criteria.
- ★ Ensure transparency and accountability through clear definition of the processes and the role and responsibilities of the agencies and the private sector.

This panel is available to all Central, State and Municipal Governments who are undertaking PPP transactions. They would be able to select any of the consultants from this panel through a limited financial bid without having to go through the lengthy and more complex technical bid.

Firms on the panel will contract directly with the agencies concerned for provision of transaction management services. Department of Economic Affairs should however be kept informed on the use being made of the panel, and the performance of panel members.

States can draw upon IIPDF to incur expenditure an hiring of Transaction Advisors.

The panel is valid for a period of two years. During this period DEA may remove firms from the panel if it concludes that they are not capable of providing the required services in a professional manner or add new firms, after due diligence. Any information on change to panel membership will be made available through www.pppinindia.com.

Steps for Using the Panel of Consultants

1	Confirm proposed project is eligible
2	Develop specific terms of reference for the assignment
3	Determine which panel members to approach
4	Seek financial quote from panel members
5	Evaluate proposals from panel members
6	Sign contract for provision of transaction services with selected panel member
7	Service commences
8	Evaluate and report performance to DEA on performance of selected panel member

Pre-bid Grading of Projects

Risk has a cost. Higher the risk perception greater the need to indemnify oneself against the risk through higher valuation. Department of Economic Affairs, initiated the idea of grading of projects by the rating agencies at pre bid stage i.e. before the project developer is identified. 'Project Grading' is a new product developed by four leading rating agencies-CARE, CRISIL, Fitch Ratings and ICRA-in consultation with DEA. A common framework for pre bid rating has been developed. The rating agencies have their independent methodologies and criteria for evaluating the project related risk. While these agencies will adopt their own proprietary methodologies for evaluation, broad analytical framework proposed to be followed by all the rating agencies would be the same.

Prospective clients for pre-bid grading of projects

Sponsoring Authorities of the project such as Central Ministries, State Governments, Public Sector Undertakings and Statutory Bodies. The prospective bidder may also like to get an independent assessment of the project in case the sponsoring agency decides not to get a grading from a rating agency.

Grading: Definition

The grading of a project at the pre-bid stage would essentially be a comment on the risks involved in undertaking the project. Unlike a normal credit rating, the grading exercise does not cover opinion on the credit risks associated with the rated instrument/issuer. Grading will be on a five point scale with Grade 1 indicating minimal project risks and Grade 5 indicating very high project risks in comparison to other infrastructure projects at the pre-bid stage.

The pre bid stage grading does not reveal project's credit rating or financial/ commercial strength in any way.

Methodology

The grading methodology includes detailed analysis of the various risk parameters as under:-

- **Project related factors:**

  Assessment of level of preparedness on various factors essential for implementation of project.

  Key factors:

  - Identification, Availability of land and project related infrastructure
  - Status of statutory clearances
  - Resettlement and rehabilitation requirements or status

- Accessibility to site and other site related infrastructure
- Availability and pricing of inputs
- Technology risk
- Off take arrangement and market risk
- Credit risk of off-taker and payment security mechanism envisaged

★ **Contractual risk assessment:**

The identification of risks involved over project life including construction period and mitigation thereof through various contractual arrangements would be key parameters. Evaluation of risk allocation framework, whether the same is well defined and documented in unambiguous terms, would also be examined

Key factors:

- Roles and responsibilities of different project parties, Government and Regulator
- Political, regulatory and legal environment
- Track record of various public sector entities in managing contracts
- Clarity, comprehensiveness and enforceability of contracts
- Provisions in respect of force majeure
- Provisions in respect of financial implications of liquidated damages
- Examination of major documents, i.e. CA etc

★ **Evaluation of bidding process / selection process**

Key factors:

- Design of the bid process
- Qualifying criteria
- Bidding criteria
- Comparison of the selection process with international best practices

★ **Broad financial parameters:**

Assessment of key financial indicators based on a set of assumptions. Comparison with other infrastructure projects in similar sector would also be made.

Key factors:

- Assessment on viability based on base case as included in the Project Report

- Assessment of key financial indicators
- Expected funding mix

Outcomes

- Independent evaluation is likely to result in better investors.
- Government likely to get better value for money.
- The Sponsoring Authority can try and mitigate the risks identified by the rating agencies before bidding.

The option to get a project graded will rest with the Sponsoring Authority.

www.pppinindia.com

Information dissemination is the key to successful PPPs - whether it adds to execution clarity of the sponsoring entity or information to investors on PPP schemes and incentives. It also provides data on existing PPP life cycle. www.pppinindia.com promoted by DEA is a one-stop shop on information of PPPs in India including policy guidelines. The site carries a link to database on PPP projects in India. The website posts all policy issues on PPP projects. It indicates the status of the proposals received by the PPP cells under the VGF scheme and PPP Appraisal Committee. It acts as a marketing tool for private sector companies to market their PPP schemes through advertising or listing in the website.

Salient features

- ★ A one stop site for all information relating to Public Private Partnership initiatives in India. The site carries a link to database on PPP projects in India. It indicates the status of the proposals received by the PPP Cells under the VGF scheme and PPP Appraisal Committee as well as all policy issues on PPP projects.
- ★ Provides information about the possible vendors and financial institutions on the website. Various investors and financial institutions have already advertised in the site.
- ★ Disseminates information on best practices for PPPs worldwide, latest guidelines relating to PPP projects, policies by the Centre and State Governments and case studies of major PPP projects.
- ★ Enables preparation of quality proposals by disseminating the above information as well as promoting investment in PPP both by domestic or overseas parties by highlighting the opportunities of the investment in the sector.
- ★ Provides a platform to Government of India, State Governments as well as Financial Institutions, investors and stake holders to detail various PPP engagements.
- ★ Provides contact points and referrals in Government agencies. The website regularly provides updates on all PPP related matters. Data on India/ infrastructure sectors in India is collated and provided.
- ★ Private sector players could market their company through advertising or listing in the website. The site is populated with relevant and latest information.

Online Database of PPP Projects in India

The purpose of the database is to provide comprehensive and current information on the status and extent of PPP initiatives in India at the Central, State, and sectoral levels. The database will be available online through www.pppinindia.com .

The database provides essential information on economic sector, host state, collaborating government department(s); private investor(s),capitalm commitments & total public private partnership resource commitments.

Stakeholder specific uses

- **Department of Economic Affairs:** To study current and historical PPP trends; develop investment promotion packages for investors; and assess the distribution of PPP initiatives throughout India on both a jurisdictional and sectoral basis.
- **Government of India nodal ministries (e.g. Ministry of Roads, Port Authority, etc.):** To determine the attractiveness of their sector to private investors.
- **State Governments:** As a baseline to assess their performance in attracting private funds in relation to other states and the central government.
- **Private Investors:** To determine what sectors, and states are most promising for undertaking public private partnership initiatives. In addition, investors will be able to determine who is actively investing in various sectors.
- **Academicians and Researchers:** To assist them in their research efforts in the area of PPP development models.
- **Media:** To report on the role, results of and impact of PPP initiatives in India.
- **Citizens:** To learn more about the role of public and private partnerships in the development efforts of India.

The database will list information on all PPP projects in India. The database on a particular PPP project will essentially provide data on

(i) project information

(ii) bidding information

(iii) project benefits and costs

(iv) legal instruments

(v) financial information

Online PPP Toolkit

The PPP Toolkit will enable the investors and PPP stakeholders to understand the PPP process better. The Toolkit will be provided on www.pppinindia.com. It is envisaged to provide the technical content and methodology for all Government practitioners involved in different phases of the lifecycle of PPPs. Thrust will be given for understanding the entire PPP lifecycle, including inception, feasibility, procurement, approving, monitoring, regulation and accounting treatment.

Salient features of the Toolkit

- The primary audience for the Toolkit is officials in the National, State and Local governments including State owned enterprises and other agencies charged with executing PPPs. However, it would also be of use to private sector and financial institutions involved in infrastructure PPPs, consultants advising private sector and government on PPPs as well as civil society.
- It is envisaged that the Toolkit will form the basis of certification programme. An identified agency such as one of the leading management institute will conduct the certification programme on PPPs.
- A Toolkit Manual will provide tools to the target users in a simple and user friendly manner. The focus area of the target users will be identified and addressed suitably. Besides providing clear guidance to the users, it will provide with a checklist for the users to ensure that all steps that are required to be taken in the project identification, conceptualization, development, evaluation, and implementation are indicated. The Toolkit Manual will cover:
  - What are PPPs and why use them rather than public procurement
  - PPP project cycle
  - PPP inception
  - Understanding government commitments and exposure to PPPs
  - PPP feasibility study
  - PPP procurement
  - Accessing the Viability Gap Fund
  - Oversight and regulation of a PPP
  - Auditing PPPs and evaluating their success

- Accounting treatment for PPPs in the Government balance sheet

- Sector specific references and cross references will be made available in the Toolkit. Such sector specific material will include a clear pictorial depiction of life cycle of a typical project, checklists for activities, expected outcomes, model concession documents, templates financial model/analysis, and links to useful sites. The scope of sectors to be covered in the Toolkit would include roads, ports, railways, urban transport, airports, water supply & sanitation and power distribution.

- The Toolkit will provide clarity to the users on:
  - Conceptual framework of PPPs
  - Objectives of PPP
  - When to have a PPP Project
  - Structuring of a PPP Project
  - Types of PPP
  - Risk allocation under a PPP
  - Financing of a PPP
  - Key challenges/tasks during developmental phase of a PPP project.
  - Model agreements
  - Standard operating frameworks/ procedures
  - Guidelines for procurement
  - Sector-wise deviations

- While the general structure will follow international practices, the Toolkit will refer to specific approaches for project approval, structuring etc. currently in place in India to ensure that it is a relevant resource for practitioners in India.

Learning and Knowledge Sharing

The Toolkit is in its conceptual stage and should be available to users in the current financial year

What has been done till now

- A Study was undertaken in collaboration with the World Bank to examine how capacities for conceptualizing , structuring and managing PPPs could be developed in India.
- As part of its efforts to mainstream Public Private Partnerships (PPP) for accelerated infrastructure development in India, Department of Economic Affairs and Asian Development Bank organised four regional workshops of Chief Secretaries on PPP. The workshops were held between June 12 and September 2, 2006 in Bangalore, Delhi, Kolkata and Goa.
- International Conference on 'Meeting India's infrastructure needs with PPPs' was held in February 2007 in collaboration with the World Bank.
- DEA also organized 'Programme on Public Private Partnership for Development' held on January 29- February 3, 2007 in collaboration with Indian Institute of Management Ahmedabad. The Programme dwelt upon wide ranging issues on PPP initiatives and case studies of recent times and from around the world. Seventy policy makers attended from various central Ministries and the State Governments. Further courses will also be organized.

Future Initiatives

- A framework for widening training net through LBSNAA/State institutes of public administration in collaboration with one of the leading management institute is planned.
- Four Regional Workshops (one in each region) jointly with CII on various schemes.
- Sector specific workshops on 'PPPs in Drinking Water' planned in September 2007.
- Regular events are being planned to facilitate exchange of views and interaction among PPP nodal officers from Central Ministries and State Governments. The first 'PPP Nodal Officers Round Table' is schedule for September 2007
- Exposure to "Best Practices" for State/Central Ministry officials in countries

Participants feedback

"Case method invited active class discussion. Excellent discourse on policy hurdles that have enabled growth"

"Insight into PPPs and financial perspective. Area where more vigilance is recognized. Privatization is coming to stay, we have to understand the analytical part so that the Government is not taken for a ride and the entrepreneur also earns"

"Helped me to deal with PPP projects effectively, to enlighten myself on the subject, to deal the situations and think beyond traditional ways it has been handled so far."

- Programme on PPPs for Development

Glossary

with substantial experience in PPPs will be organised in 2007 - 2008

ADB

Asian Development Bank

CII

Confederation of Indian Industry

DEA

Department of Economic Affairs

Eligible Sectors

Sectors that are eligible for Viability Gap Funding (VGF) under the Government of India's Scheme for Financial Support to PPPs in Infrastructure.

Empowered Committee

A Committee under the Chairmanship of Secretary (Economic Affairs) and including Secretary Planning Commission, Secretary (Expenditure) and the Secretary of the line ministry dealing with the subject.

Empowered Institution

Empowered Institution (EI) as notified vide DEA's Notification No.2/10/2004-INF dated August 18, 2005.

IIFCL

India Infrastructure Finance Company Ltd. (A company to be incorporated under the Companies Act, 1956).

IIPDF

India Infrastructure Project Development Fund.

Lead Bank

Financial institution (FI) that is funding the infrastructure project by providing debt to an extent not less than 25% (twenty five percent) of the total project debt and designated as such by an inter-institutional group or consortium of financial institutions.

Lead Financial Institution

Financial institution (FI) that is funding the PPP project, and in case there is a consortium of FIs, the FI designated as such by the consortium.

Long Term Debt

Debt provided by the IIFCL to the Project Company where the average maturity for repayment exceeds 10 years.

Memorandum for Consideration (MFC)

The format in which information will be provided by the Sponsoring Authority while applying for IIPDF grant.

Project Development Expenses

Expenses incurred by the Sponsoring Authority (as consultant's fees etc.) in respect of development of each Project as per the budget approved by the Empowered Institution, which would include feasibility studies, financial structuring, legal reviews (including environment studies) and development of project documentation, including concession agreement, commercial assessment studies (including traffic studies, demand assessment, capacity to pay assessment) etc. required for achieving Technical Close of such projects, on individual or turnkey basis, but would not include expenses incurred by the Sponsoring Authority on its own staff etc.

Private Sector Company

A company in which 51% or more of the subscribed and paid up equity is owned and controlled by a private entity;

Project Company

The company which is implementing the infrastructure project for which assistance is to be given by the IIFCL.

Project Term

The duration of the contract or concession agreement for the PPP project;

Project

A project in any of the infrastructure sectors identified by the EI for the purpose of this Scheme

Public Private Partnership (PPP)

Partnership between a public sector entity (Sponsoring Authority) and a private sector entity (a legal entity in which 51% or more of equity is with the private partner/s) for the creation and/or management of infrastructure for public purpose for a specified period of time (concession period) on commercial terms and in which the private partner has been procured through a transparent and open procurement system.

uthority) and a private sector entity (a legal entity in which 51% or more of equity is with the private partner/s) for the creation and/or management of infrastructure for public purpose for a specified period of time (concession period) on commercial terms and in which the private partner has been procured through a transparent and open procurement system.

Public Private Partnership (PPP) Project

A project based on a contract or concession agreement, between a Government or statutory entity on the one side and a private sector company on the other side, for delivering an infrastructure service on payment of user charges.

Public sector company

A company in which 51% or more of the subscribed and paid up equity is owned and controlled by the Central or a State Government, jointly or severally, and includes any undertaking designated as such by the Department of Public Enterprises and companies in which majority stake is held by Public Sector Companies other than financial institutions.

Sponsoring Authority(ies)

Central Government Ministries/Departments, State Governments, Municipal or Local Bodies, PSUs or any other statutory authority (such as the Delhi Development Authority).

Technical Close

The stage of execution of concession agreement, between the private sector developer and the Sponsoring Authority or its agencies, subsequent to selection of the private sector developer through a bidding process.

Total Project Cost

The lower of the total capital cost of the PPP Project: (a) as estimated by the government/statutory entity that owns the project, (b) as sanctioned by the Lead Financial Institution, and (c) as actually expended; but does not in any case include the cost of land incurred by the Government/statutory entity.

Transaction Advisors

Consultants hired through a transparent system of procurement by the sponsoring authorities to assist them in designing the project and/or providing technical, financial and legal input for the project design, and providing advice for the management of the process of procuring the private sector partner for the PPP project.

VGF

Viability Gap Funding means a grant one-time or deferred provided under the Government of India's Scheme for Financial Support to PPPs in Infrastructure, with the objective of making a project commercially viable.

Notes

visit us at :

www.pppinindia.com