

**Urban Infrastructure Needs in India
and Funding Options
- Focus on Public Private Partnerships**

Presentation Overview

- **The Story So Far**
- **National Urban Renewal Mission**
- **Introduction to Public Private Partnerships (PPP)**
- **Making PPPs work - experience of IL&FS Infrastructure Development Corporation**

THE STORY SO FAR

Urban Agenda in 1998

- **Four areas were identified by the GoI**
 - **Improving Policy, Legislative and Regulatory framework**
 - **Strengthening Institutional arrangement**
 - **Rationalize the Economic and Financial Framework**
 - **Strengthen Data, Technological and Information Systems**

Policy and Regulatory Interventions

■ First Generation Interventions

- Legislative measures and guidelines**
 - 74th CAA (1992) – Empowering local bodies**
 - Establishment of State Finance Commissions**

■ Second Generation Interventions Still Underway

- Municipal Tax and Accounting Reforms**
- Guidelines for Public Private Partnerships**
- Model Municipal Act**
- Proposed Guidelines for Regulatory Framework**

Economic and Financial Framework

■ Tax Incentives

- Ten year tax holiday during first 20 years
- Income tax incentives for long term financing
- Tax free municipal bonds

■ Fund Support – that never took off

- Urban Reform Incentive Fund (URIF) - Rs. 500 cr. linked to reforms – partial disbursements made
- City Challenge Fund (CCF) – Grant facility (Rs. 500 cr. in 10th Plan)
- Pooled Finance Development Scheme (PFDF)

All Dressed Up with Nowhere to Go...1

■ Paralysis of Analysis

- Absence of Institutional Structures or Operational Frameworks that inspire or empower stakeholders to translate guidelines into reality**

■ The Spirit is Willing but the Flesh is Weak

- Lack of Project Development Fund**
- Lack of Funds to Enhance Creditworthiness**
- Lack of Funds to manage Transition Costs**

All Dressed Up with Nowhere to Go...2

■ Crisis of Management

- **Lack of Capacity to undertake**
 - **Project design**
 - **Project development**
 - **Financial structuring**

■ The Terror of Ignorance

- **Lack of knowledge**
- **Lack of access to new technologies and practices**

National Urban Renewal Mission

Investments

Category	Number	Fund Required Rs. Crores (over 5 years)
Mega cities	7	57,143
1 to 4 million cities	28	57,143
Others (State Capitals etc.)	25	6,250
Total	60	1,20,536

Indicative Sharing Pattern

(Rs. Crores)

Category	Fund Required (over 5 years)	Annual Fund Release	Funding pattern* CG:SG:ULB/FI	Annual GoI Share
Mega cities	57,143	11,429	35:15:50 50:35:15 50:25:25	4,600
1-4 million cities	57,143	11,429	50:20:30 50:35:15 50:25:25	5,715
Others	6,250	1,250	80:10:10 90:10:0	1,000
Total	1,20,536	24,108		11,315

* Variation on account of Programs and Special Category States
(NE States, J&K)

National Urban Renewal Mission

- **Huge investment requirements in the sector**
 - **Rs. 1,20,536 crores over a five-year period for 60 cities**
- **Annual funding requirement of Rs. 24,108 crores**
- **Provides for investments in basic infrastructure and services**
 - **Water supply, Sewerage, Solid Waste Management, Transportation, Environment and Tourism, Urban Development projects**
- **Pre-condition is commitment to reforms**

Basic Infrastructure...1

■ Urban Renewal

- Redevelopment of inner (old) city areas (including widening of narrow streets,
- Shifting of industrial/commercial establishments from non-conforming (inner city) areas to conforming (outer city) areas to reduce congestion, etc.

■ Water Supply & Sewerage

- Creation of new facilities
- Augmentation and/or rehabilitation of existing facilities
- Replacement/construction and improvement of old and worn-out drainage/sewerage/water pipes

Basic Infrastructure...2

■ Transportation

- Facilities for public transport, terminals, mass transit
 - Underground Metro
 - Elevated Rail
 - Light Rail Transit
 - Mass Rapid Transit Systems
- Laying/improving/widening of arterial / sub arterial roads and bridges, ring-roads & bypasses
 - Around metro and mega cities

Basic Infrastructure...3

■ Solid Waste Management

- Creating new facilities for collection, transportation and disposal, and
- Renewal of solid waste disposal locations

■ Environment & Tourism

- Tourism infrastructure and
- Environment improvement projects
 - Environment regeneration projects and
 - City Beautification Programs

Basic Infrastructure...4

■ Urban Development

- Provision/refurbishment of health related infrastructure
 - hospital waste management projects
- Slum improvement/upgradation/redevelopment
- Housing for employee welfare societies
- Markets
- Parking lots & Bus Terminals
- Slaughter houses
- Business districts/complexes
- Community infrastructure (destitute homes, working women's hostels, parks, playgrounds, night shelter with community toilets)

Mandatory Reforms at State Level Under finalization

- **Implementation of Decentralized Measures as envisaged in the 74th CAA**
 - In meaningful association of ULB/Parastatals
- **Stamp duty reduction to 5% in 5 years**
 - Higher registration of properties
- **Enactment of Community Participation law**
 - To institutionalize citizen participation and introducing the concept of Area Sabha in Urban areas
- **Assigning or associating elected ULBs with “City Planning Function”**
 - Transferring all special agencies that deliver civic services in urban areas to ULBs

Mandatory Reforms at ULB/Parastatal Level

Under Utilization

- **Adoption of modern accrual based double entry system of Accounting in ULBs**
- **Introduction of e-governance using IT**
 - applications such as GIS and MIS for various services
- **Property tax reform through GIS**
 - efficiency to reach to 85% within 5 years
- **Levy of reasonable user charges**
 - full cost of operation and maintenance is collected within next five years
- **Internal earmarking of local budgets for basic services to urban poor**

Optional Reforms at State/ULB Level...1 Under finalization

- **Repeal of Urban Land Ceiling Reforms Act**
- **Reform of Rent Control laws**
 - balancing the interests in landlords and tenants
- **Introduction of Independent Regulators for urban services**
- **Enactment of Public Disclosure law**
 - to ensure preparation of medium term fiscal plan of ULBs/Parastatals and
 - release of quarterly performance information to all stakeholders

Optional Reforms at State/ULB Level...2 Under finalization

- **Revision of Bye-laws to streamline the approval process for construction of buildings**
- **Simplification of legal and procedural frameworks for conversion of agricultural land for non-agricultural purposes**
- **Introduction of Property title certification system in ULBs**
- **Earmarking at least 20-25% of developed land in all housing projects for EWS/LIG category with a system of cross subsidization**

Optional Reforms at State/ULB Level...3 Under finalization

- **Introduction of Computerized process of registration of land and property**
- **Revision of byelaws to make rain-water harvesting mandatory and adoption of water conservation measures**
- **Bye-laws for reuse of recycled water**
- **Administrative Reforms i.e. Reduction in establishment by bringing out VRS etc.**

Optional Reforms at State/ULB Level...4 Under finalization

- **Introduction of Computerized process of registration of land and property**
- **Revision of byelaws to make rain-water harvesting mandatory and adoption of water conservation measures**
- **Bye-laws for reuse of recycled water**
- **Administrative Reforms i.e. Reduction in establishment by bringing out VRS etc.**
- **Encouraging Public Private Partnerships (PPP)**

**Introduction to
Public Private Partnerships
(PPP)**

PPP Approach

Goal

- Attract private investments for infrastructure projects

Need

- Leverage limited budgetary resources
- Improve efficiency in service delivery

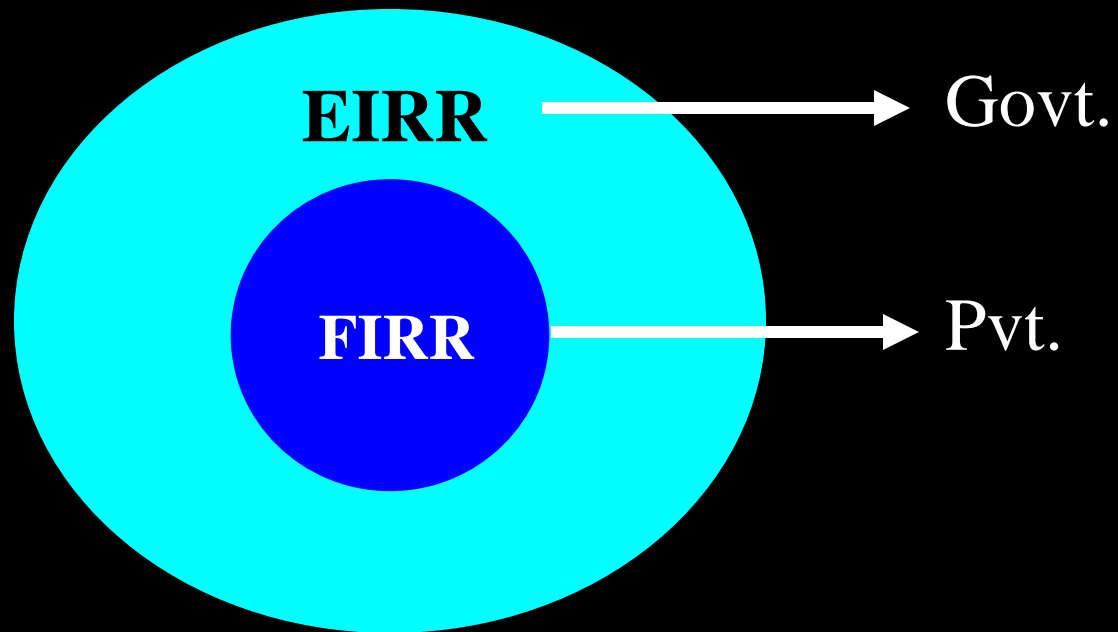
PPP approach

- Private Sector contribution for:
 - Financial investments
 - Management practices
 - Efficiency in service delivery
- Public Sector contribution limited to:
 - Financial gap funding
 - Providing institutional commitment to project

Five General Principles

- 1. Private Capital is neither necessary nor sufficient for success of PPP**
- 2. Commercial viability is neither necessary nor sufficient for success of PPP**
- 3. Project Development is the name of the game**
- 4. Risk Transfer is the aim of the game**
- 5. The Last “P” is the most important “P” – “Partnership”: The need for Institutional, Policy and Legal Frameworks for cooperation**

Understanding Expectations



- Govt. looks at Economic Internal Rate of Return (EIRR)
- Private funding needs to get Financial Rate of Returns (FIRR)
- Need optimal mix of Public funds with Private funds
- Private intervention makes 100% deliver efficiently
- Issue: Structure projects

PPP – Important Points

- **What do you achieve?**
 - Develop & execute more projects on sustainable basis
 - Reduce life cycle cost

- **PPP are more expensive on “Delivered Cost Basis”**
 - Cost of sovereign borrowing is lower
 - PPPs account for funding delivered cost of project
 - Includes physical cost, physical and price contingencies, interest during construction, taxes, stamp duties, insurance

- **Risk sharing and risk mitigation measures need to be appropriately designed**

Impact of Risks..1

- **Risk impacts ultimately result in**
 - **Delay/stoppage of project implementation**
 - **Increase in the project cost**
 - **Funding shortfall**
 - **Inadequate Recovery>Returns on investment**

- **Project Development Phase**
 - **Land acquisition**
 - **Delays in project development**
 - **delays in obtaining requisite clearances etc.**
 - **Negotiations on framing an acceptable contractual framework**

Impact of Risks..2

■ Project Construction Phase

- Design and Technology risks**
 - Scope of identified work, Variations, Quality, Timeframe**
- Delays in project construction/completion**
- Escalating construction costs and cost overruns**

■ Operation Period Risks

- Commercial risks**
 - demand shortfall, delayed payments**
- Design and technology risks resulting in poor performance**

Impact of Risks..3

■ Operation Period Risks

- Regulatory risks constraining in tariffs**
- O&M risks**
- Financial risks - Interest rates, Forex, Inflation**

■ Other Risks

- Termination of project**
- Legal risks - change in law, breach of financing documents, security structure, insolvency etc.**
- Force majeure**
- Political risks**
- Environmental and Social risks**

Success of PPP

- **Success of PPP depends on (amongst various factors)**
 - **Demand for the services/goods**
 - **Political commitment to the project**
 - **Administrative framework and readiness to meet requirements**
 - **Adequate project development**
 - provide information required to take informed decision, reduce risks and uncertainty
 - level of project development depends on the intrinsic strength and viability of the project
 - technical, environmental, social, financial, legal aspects
 - risk identification and mitigation
 - bankable project

Developing & Financing Projects

PROJECTS



FUNDING

CAPEX

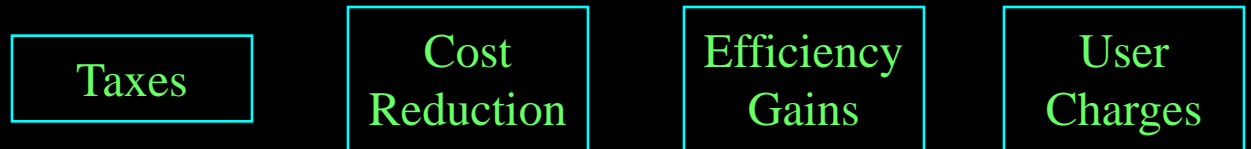


OPEX



RECOVERY

Capex and Opex



REFORMS



Policies, Accounting Practices, Asset Inventory, Capacity Building,

Forms of PPP

Types of Contracts	Asset Ownership	O&M	Capital Investment	Commercial Risk	Duration (Yrs)
Service Contract	Public	Private & Public	Public	Public	1-2
Management Contract	Public	Private	Public	Public	3-5
Lease	Public	Private	Public	Shared	8-15
Concession	Public	Private	Private	Private	25-30
BOT/BOOT	Private & Public	Private	Private	Private	25-30

Business Plan for Existing Water Supply Improvements

Cost Centers

- Operator Fees
- O&M Costs
- Asset Creation :
Business Plan
- Energy efficient
operation of
assets



Revenue Centers

- Tariff Revision
and Reforms
- Enhanced
Revenues from
previously Non
Revenue Water
- Improved Billing
& Collection
- **Savings from:**
 - Energy efficiency
savings
 - Performance
efficiency savings



**Business
Plan for
PPP**

**Annual
Funding
from
ULB**

Business Plan for New Sewerage System

Cost Centers

- Annuity for BOT
- New Sewage Recycling System



Revenue Centers

- Tariff Revision and Reform
- Enhanced Revenues from previously non coverage areas
- Revenues from industrial use of Recycled 'New Water'
- Savings from:
 - Performance efficiency savings



Business Plan for PPP

Annual Funding from ULB



Just Do It

**IL&FS Infrastructure
Development Corporation
(IIDC)**

Developing PPPs across Sectors

Perspective

- **The IL&FS mandate was to create an investment bank with specialist skills in financial engineering and infrastructure commercialization through Public Private Partnership**
- **IL&FS worked with the GoI and State Governments in establishing legal, institutional and fiscal frameworks for infrastructure commercialization, whilst simultaneously developing specific projects**
- **All projects are structured on a stand-alone basis with limited recourse to budgetary support**

Key Learning

- **Absence of rigorous project development is a key impediment to successful commercialization of projects in India.**
 - **Ill defined key risks (technical, environmental, social, financial and legal)**
 - **Inadequate risk management and contractual frameworks**
 - **Attract private sector investments into infrastructure**
 - **appetite and capacity available for investments by F.I.s and investors in India and overseas**

- **Established in 2002, it domiciles IL&FS's infrastructure development mandates since 1988**

Initial Projects

- **IL&FS has played a catalytic role as sponsor-developer in implementing its initial project initiatives in the road and water sector**

Visakhapatnam Water : 520 Mld Water Supply Project

Delhi Noida Bridge : 8-lane bridge

Vadodara-Halol Road : 32 km road widening Project

Ahmedabad-Mahesana Rd : 62 km road widening Project

Tirupur Water Supply : 185 Mld water supply Project

Tamil Nadu Roads : 250 km roads strengthening

Mahindra Industrial Park : 1200 acres industrial estate with state-of-the-art facilities

Partnerships

■ States: Projects in

- Assam, Andhra Pradesh, Chattisgarh, Gujarat, Himachal Pradesh, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Punjab, Rajasthan, Sikkim, Tamil Nadu, Uttar Pradesh and Uttaranchal

■ Central Government

- Ministry of Commerce (ASIDE, IIUS)
- Ministry of Human Resources (Training)
- Planning Commission (Tsunami Rehabilitation Program)

Sectors

- **Urban Infrastructure:** VMC Water Supply and Sewerage Projects, VMC Road Upgradation and Maintenance, International Convention Center & Golf Course Project, Hyderabad; National Games Village, Hyderabad; Bus Terminal, Ludhiana

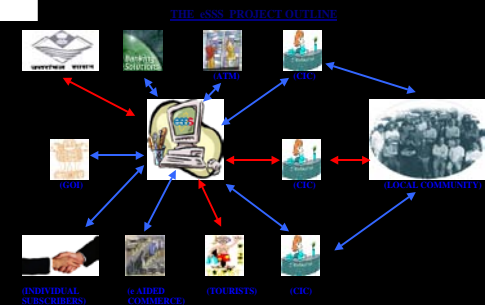


- **Tourism :** Solang Nallah Ropeway (Manali), HP; Jal Mahal Project, Jaipur



- **E-Governance :** National e-Governance Project for Directorate of Company Affairs with NISG, MoIT; Uttaranchal State Infoway Project

- **Capacity Building :** Development of training programs on Public Private Partnerships for DoP&T,



Sectors

- ✚ **Airport:** Bangalore International Airport, Pune Airport
- **Ports:** Greenfield Gangavaram and Vizhinjam Ports
- **Water Supply and Sanitation:** Tirupur Area Development Project, TN; Visakhapatnam Industrial Water Supply Project
- **Industrial Parks:** Pharma City, AP SEZ, Andhra Pradesh



Sectors Amenable to PPP Approach

- **Water Supply Treatment and Distribution**
- **Irrigation – including Canals, Dams**
- **Waste Management, Sewerage & Drainage**
- **Power (including Hydropower)**
- **Inland waterways**
- **Roads, Bridges and By-passes**
- **Health**
- **Public Markets, Public Buildings**
- **Convention, Exhibition and Cultural Centers**
- **Sports and Recreation infrastructure**
- **Real Estate**

THANK YOU