

# Public Private Partnership in State Highways

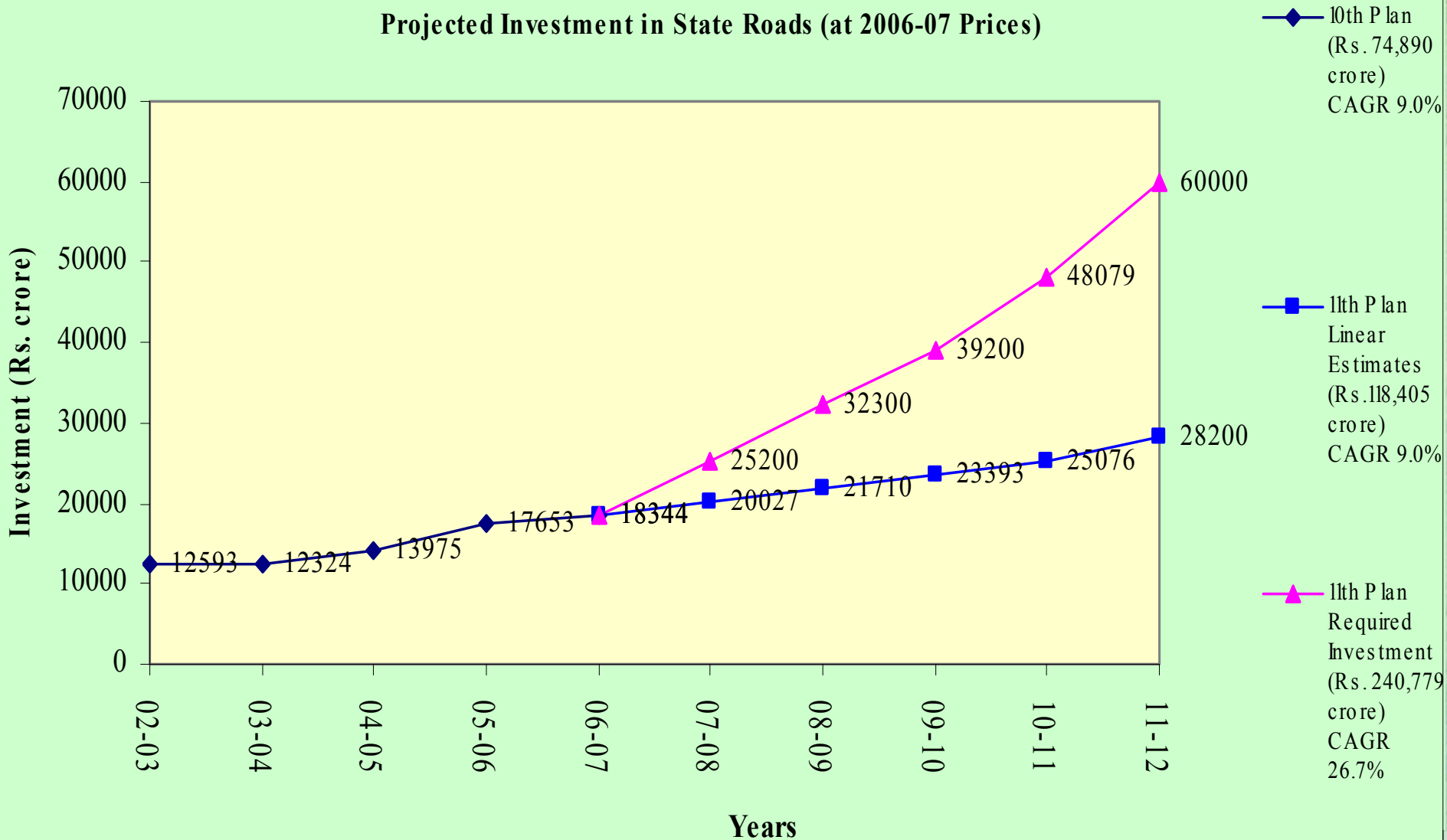


*- Gajendra Haldea*

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# Projected Investment in State Roads

Projected Investment in State Roads (at 2006-07 Prices)



# Investment in State Roads

(at 2006-07 Prices)

(Rs. in crore)

Type of Road	Tenth Plan	Eleventh Plan (Projected)		
		Public	Private	Total
State Roads	54,266	1,01,445	35,082	1,36,527
Rural Roads	20,624	68,252	-	68,252
<b>Total</b>	74,890	1,69,697	35,082	2,04,779

# Division of Labour

- State, district & rural road network require large resources for augmentation and upkeep
- Rapid growth in number of cars, buses & goods vehicles
- Public sector operations to continue, and even expand
  - Especially in segments that can't be commercialised, such as rural roads and other district roads
- Reliance on PPPs for additionality & efficiency is inevitable
  - Especially in segments that can be commercialised, such as state highways

# Stages of PPPs

- I. Public sector provision of Infrastructure: Command & Control
    - PPP is an exception
  
  - II. Introduction of PPPs: The Transition
    - Largely negotiated, often opaque
    - Often driven by private beneficiariaries
  
  - III. PPPs gain acceptability: Enhancing welfare & efficiency
    - Transparent, competitive and fair
    - Driven by government; good governance becomes the key issue
    - Objective is to attract private capital in public projects
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- Recent Indian PPP projects are in Stage III

# Governance issues in PPPs

- Unwillingness of incumbents to yield control over project construction & operation
- Excessive government control over functioning of PPPs
- Inadequate and inefficient roll out of projects
  - The demand for PPP projects is far greater than their supply
- Incumbent mindset constitutes a major challenge
- Inadequate capacity & inter-departmental participation

# Typical documents for PPP

- **Substantive Documents**

- Concession Agreement
- Manual of Specifications & Standards
- Rules for user charges

- **Process Documents**

- TOR for preparation of Feasibility Report
- RFQ document for pre-qualification of bidders
- RFP document for financial bids

# Model Concession Agreement

- Need for a Model Concession Agreement (MCA)
  - Limited recourse financing
  - Risk allocation
  - Identification and enforcement of Performance Standards
  - Safeguarding public exchequer & user interests
  - Predictability of costs, revenues and obligations
  - Reduction in transaction costs and time

# MCA (contd.)

- **Concessionaire's Risks**

- Construction
- Operation
- Non-political force majeure
- Traffic growth

- **Government's Risks**

- Political force majeure
- Change in scope or specifications
- Change in Law

# MCA (contd.)

- **Technical Provisions**

- Output specifications
- Service quality orientation
- Independent Engineer

- **Other Features**

- Financial close in 180 days
- Exclusion of local traffic
- Land related provisions

# Manual of Standards & Specifications

- Salient features of Manual of Standards & Specifications
  - Specifies the technical requirements for safe and reliable highways
  - Enables innovation in design and construction to reduce lifecycle costs while conforming to mandatory standards
  - Eliminates case by case approach; yet allows for project-specific deviations
  - Reduces project preparation time
  - Safeguards user interest by specifying service outputs
  - Provides greater predictability to the concessionaire

# Model RFQ document

- Salient features of Model RFQ
  - Selection through open competitive bidding
  - Two stage bidding process; RFQ & RFP
  - Transparent, fair and inexpensive process for pre-qualification & short-listing of bidders
  - Experience to be indicator of technical capacity
  - Net worth to be indicator of financial capacity
  - Grant/revenue share to be sole criteria for bidding

# Documents being evolved

- RFP document; IMG deliberations are in progress
- TOR for preparation of Feasibility Reports; drafting of model document is in progress
- Rules for User charges
  - Jurisdiction rests with the States
  - Current rules require review
  - Draft Rules in MCA or revised Rules of the Central Government could serve as a model

# Assistance for States

- Standardised documents & processes will enable accelerated roll out of bankable projects
- States can avail of upto 20% of capital costs as VGF grant from Central Government
- They can also avail of 20% of capital costs as long-term loans from IIFC
- Technical assistance being provided by Planning Commission
- Assistance for capacity building being provided by the Finance Ministry

# Way forward

- Reliance on PPPs in State highways is inevitable
- Adopt standardised documents and processes for safe, efficient & economic delivery
- Accelerate the roll-out of PPP projects
- Objective is to build first-rate State highways with least cost to the Government

***THANK YOU***