

**NITI AAYOG**  
**(Infrastructure and PPP Division)**

**NITI BRIEF # 5**

**Investment in Infrastructure: Strengthening PPP Policy framework**

The first meeting of the Governing Council of NITI was held on 8<sup>th</sup> February, 2015. The meeting endorsed the outline of a National Development Agenda and agreed to function as an organic Team India. Later in the month, the recommendations made by the Fourteenth Finance Commission (FFC) in its report submitted to the President on December 15, 2014 has been presented to Parliament; the Economic Survey 2014-15 and the Budget 2015-2016 have also been presented.

2. An overview of the implications of the Fourteenth Finance Commission (FFC) recommendations of the Union Budget 2015-16 and the outlook presented in the Economic Survey 2014-15 has been analysed separately (NITI Brief # 1). Similarly, drafts of the following NITI Briefs are under preparation:

1. NITI Brief # 3 (Draft) – Work in progress
2. NITI Brief # 4 (Draft) – Work in progress

3. The present Brief (NITI Brief # 5) examines the status of infrastructure financing, investment climate both Public and Private and the role of PPP in addressing the infrastructure deficit.

4. The NITI BRIEF # 5 has the following sections:

- I. Background**
- II. Public Private Partnerships in India**
- III. Outcomes of the PPP Programme**
- IV. Challenges**
- V. Conclusion**

## **I. Background**

1.1 Adequate investment in infrastructure development is a prerequisite for higher economic growth. Due to low investment in infrastructure development, India suffers from a huge infrastructure deficit. As per the data compiled by Mckinsey & Company, the average infrastructure investment in India during the period 1992-2010 constituted 4.7 per cent of the Gross Domestic Product (GDP) as against 7.3 per cent across countries like China, Indonesia and Vietnam. Further, as per the World Economic Forum Global Competitiveness Report 2014, India ranks 85 out of 144 countries in terms of infrastructure quality with ‘inadequate supply of infrastructure’ listed as the most difficult factor in doing business. According to the report, India’s infrastructure rankings vary from 84 in quality of roads to 111 in quality of electricity supply.

1.2 To bridge the infrastructure deficit, the Eleventh Plan (2007-2012) laid considerable emphasis on increasing the investment in physical infrastructure. The Plan envisaged to increase the infrastructure investment from about 5 per cent of GDP during the Tenth Plan to about 9 per cent in the terminal year (2011-12) of the Eleventh Plan. Further, the contribution of the private sector in infrastructure investment was expected to rise from about 22 per cent in the Tenth Plan to about 30 per cent in the Eleventh Plan.

1.3 As per the latest data, infrastructure investment during the Eleventh Plan is Rs.23,74,307 crore (at current prices), which is 2.8 times the investment of Rs.8,37,159 crore realised in the Tenth Plan (2002-2007). The actual investment in infrastructure as a percentage of GDP in the Eleventh Plan increased to 7 per cent. This notable performance was largely contributed by private investment, resulting in the share of private investment increasing from 22 per cent in the Tenth Plan to 37 per cent in the Eleventh Plan.

1.4 The Twelfth Plan (2012-2017) was formulated in the backdrop of this remarkable performance of infrastructure sector during the Eleventh Plan. The Plan projected an investment of Rs.55.75 lakh crore (at current prices) in infrastructure during the Plan period (2012-17), which is more than double the investment in infrastructure achieved in the Eleventh Plan period. Further, the Plan adopted a strategy of encouraging higher private investment in infrastructure, directly and through public private partnerships (PPPs). The share of private investment in infrastructure was projected to rise substantially from 37 per cent in Eleventh Plan to about 48 per cent in the Twelfth Plan.

1.5 However, experience in the first two years of Twelfth Plan suggests that the infrastructure investment has slowed down and there is a likely shortfall of about 30 per cent, with the shortfall in public investment (central and states combined) and private investment at 20 per cent and 43 per cent respectively.

Further, market indications suggest that this slowdown will continue in 2014-15. Thus, there has been significant downward trend in the infrastructure investment during the first three years of the Twelfth Plan which has been due to sharp decline in the private sector investment.

1.6 The Economic Survey 2014-15 also states that India's investment has been much below potential over the last few years. The rate of growth of gross fixed capital formation has plummeted from a peak of 24 per cent in the last quarter of 2009-10 to around zero in third quarter of 2014-15.

1.7 The Survey further points out that the leading reason for slowdown in the investment in the last few years has been "stalling of projects". The stalling rate of projects has increased at a high rate in the last five years, and the rate is much higher in the private sector projects. Further, the stalled projects are dominated by infrastructure and manufacturing projects and is severely affecting balance sheets of corporate sector and public sector banks, which in turn is constraining future private investments.

1.8 Further, the Survey states that the expectation that the private sector will drive investment may not fructify and the public investment may need to step in to recreate an environment to crowd-in private sector investment. Simultaneously, efforts must be made to revitalise the PPP model to attract private investments in infrastructure. The Union Budget 2015-16 has also emphasised on the need to revisit and revitalise the PPP mode of infrastructure investment.

## **II. Public Private Partnership in India**

Considering that infrastructure development require huge upfront investments, the Government has embarked on a policy of promoting Public Private Partnership (PPP) as a means of augmenting investment in infrastructure. Besides supplementing the public resources, PPPs provide an opportunity to exploit the private sector efficiencies in project implementation. While measures have been taken since the mid-1990s to induct private participation in different infrastructure sectors, the PPPs gained momentum during the Tenth and Eleventh Plan periods when several initiatives were taken which include:

1. Setting up a robust institutional structure for appraising and approving PPP projects;
2. Increasing the availability of finance by creating dedicated institutions and providing viability gap funding; and
3. Developing standardised documents such as model concession agreement across infrastructure sectors.

## **2.1 Institutional Framework for PPPs**

### **2.1.1 Cabinet Committees to fast track infrastructure investments**

2.1.1.1 The Committee on Infrastructure (CoI) was constituted in August 2004 under the chairmanship of the then Prime Minister, with the objectives of initiating policies that would ensure time-bound creation of world class infrastructure, delivering services matching international standards, developing structures that maximise the role of PPPs and monitoring the progress of key infrastructure projects to ensure that targets are achieved. A dedicated Division, namely, “Infrastructure Division” was set up in the erstwhile Planning Commission to service the Committee on Infrastructure. Seventeen different meetings of COI were held from time to time to decide PPP policy issues in infrastructure sectors.

2.1.1.2 In July 2009, the CoI was replaced by a Cabinet Committee on Infrastructure (CCI) chaired by the then Prime Minister to give further impetus to the initiatives for development of infrastructure. It approved and reviewed policies and projects across infrastructure sectors. It also considered and decided on financial, institutional and legal measures required to enhance investment in infrastructure.

2.1.1.3 In January 2013, the Government constituted the Cabinet Committee on Investment (CCI) under the chairmanship of the then Prime Minister. The key functions of the Committee *inter alia* included identifying key projects involving investments of Rs.1,000 crore or more in infrastructure, manufacturing etc., prescribing time limits for requisite approvals and clearances by concerned Ministries/ Departments, monitoring the progress of identified projects and reviewing implementation of projects delayed beyond stipulated timeframe. With the constitution of the Cabinet Committee on Investment (CCI), the Cabinet Committee on Infrastructure was merged with the Cabinet Committee on Economic Affairs (CCEA). CCI has since been abolished and all decisions are being taken by the CCEA. Cabinet Secretariat services the CCEA.

### **2.1.2 PPP Appraisal Committee and Empowered Institution/Committee**

In January 2006 a Public–Private Partnership Appraisal Committee (PPPAC) consisting of the Secretary, Department of Economic Affairs, as Chairman, and Secretaries of the erstwhile Planning Commission, Department of Expenditure, Department of Legal Affairs and the Administrative Department concerned, as Members was constituted for approval of PPP projects. The project proposals were appraised in the erstwhile Planning Commission and approved by the PPPAC. Further, Empowered Institution (EI)

and Empowered Committee (EC) were also set up in January 2006 to approve Viability Gap Funding (VGF) to the PPP projects.

## **2.2 Financial Support Framework for PPPs**

### **2.2.1 Setting up of India Infrastructure Finance Company Ltd. (IIFCL)**

In 2006 the Government established the IIFCL to provide long-term debt up to 20 per cent of the project costs to infrastructure projects. Upto one-half of the lending by IIFCL can also be in the form of subordinated debt, which often serves as quasi-equity.

### **2.2.2 Viability Gap Funding (VGF)**

The VGF Scheme was notified in 2006 to enhance the financial viability of competitively bid infrastructure projects. Under the Scheme, grant assistance upto 20 per cent of project cost is provided by the Central Government to PPP projects undertaken by the Central Ministry, State Government, statutory entity or local body, thus leveraging budgetary resources to access a large pool of private capital. The sponsoring Ministry, State Government or the project authority, if it so decides, can provide additional grant up to 20 per cent of the project cost from its own budget.

## **2.3 Model Bid Documents, Guidelines and Manuals for PPPs**

Standardised guidelines and model documents that incorporate key principles and best practices relating to bidding and award of PPP projects have been developed. These include: (a) Model Concession Agreements (MCAs) in various sectors that are based on international best practices and spell out the policy and regulatory framework that is necessary for addressing the complexities of PPPs and for balancing the interests of users and investors; (b) Model Bidding Documents pertaining to pre-qualification and selection of bidders and for selection of technical, financial and legal consultants for PPP projects; (c) Guidelines for formulation, appraisal and approval, financial support, and monitoring of PPP projects; and (d) Manual of Specifications and Standards for 2-lane and 4-lane highway projects.

## **III. Outcome of the PPP programme**

### **3.1 PPP projects approved by PPPAC and EI**

3.1.1 Since January 2006, PPPAC has approved 281 PPP projects in Central sector involving investment of Rs.3.09 lakh crore. Out of these, 182 projects with an investment of Rs.1.85 lakh crore have been awarded. A summary of the sector-wise PPP projects approved by the PPPAC and their status is given in Table 1 below.

**Table 1: Sectors-wise PPP projects approved by PPPAC and their status**

(Cost in Rs. thousand crore)

Sector	Projects approved by PPPAC		Of which Awarded		Implementation status			
	No.	Cost	No.	Cost	Completed		Under Implementation	
	No.	Cost	No.	Cost	No.	Cost	No.	Cost
<b>Roads</b>	232	255	158	163	18	10	140	153
<b>Ports</b>	32	38	22	21	6	3	16	16
<b>Others</b>	17	16	2	1	-	-	2	1
<b>Total</b>	<b>281</b>	<b>309</b>	<b>182</b>	<b>185</b>	<b>24</b>	<b>13</b>	<b>158</b>	<b>170</b>

Source: Department of Economic Affairs/NITI.

3.1.2 Further, the Empowered Institution (EI) has approved 183 project proposals of States seeking VGF from Central Government and involve investment of Rs.95,127 crore. Of these, 55 projects with an investment of Rs.30,917 crore have been awarded so far. The state-wise and sector-wise distribution of these 55 projects is given in Table 2 below.

**Table 2: Details of 55 projects awarded by state governments**

(Cost in Rs. crore)

State	No.	Cost	of which			
			Road Projects		Other Projects*	
			No.	Cost	No.	Cost
<b>Andhra Pradesh</b>	4	14,962	3	3,148	1	11,814
<b>Bihar</b>	2	2,420	2	2,420	-	-
<b>Haryana</b>	1	382	-	-	1	382
<b>Karnataka</b>	3	707	3	707	-	-
<b>Madhya Pradesh</b>	29	4,468	20	3,945	9	523
<b>Maharashtra</b>	9	2,334	9	2,334	-	-
<b>Odisha</b>	1	1,293	1	1,293	-	-
<b>Rajasthan</b>	3	1,066	3	1,066	-	-
<b>Uttar Pradesh</b>	3	3,285	3	3,285	-	-
<b>Total</b>	<b>55</b>	<b>30,917</b>	<b>44</b>	<b>18,198</b>	<b>11</b>	<b>12,719</b>

\* Other projects include 8 food grain silo projects, 2 Transmission projects and 1 Metro Rail project.

3.1.3 Besides the above, 43 projects in electricity generation sector totalling about 45,000 MW have been awarded to private power producers since 2005 on Design, Build, Finance, Own & Operate (DBFOO) and Design, Build,

Finance, Operate & Transfer (DBFOT) models. However, they are not captured in the PPPAC and EI database as these are undertaken by state companies and do not involve VGF.

### **3.2 Key findings from the PPP experience**

3.2.1 The overall response to PPPs as a mode of implementation of infrastructure projects has been encouraging and a large number of projects as indicated by the figures in the Table 1 have been awarded in the PPP mode, in the last decade.

3.2.2 Some of the key findings from the PPP experience in the last decade are briefly listed below:

- (i) The PPP mode of project implementation has been uneven across sectors and States. While PPP has taken off in sectors like roads, ports and electricity generation, it is yet to take off in sectors like railways, civil aviation and “social” sectors. Further, geographical spread of PPPs is also not uniform and States like Madhya Pradesh, Andhra Pradesh and Maharashtra are much ahead of others in implementing PPPs. There is a need to enhance private investment and coverage in untapped sectors, particularly in the “social” sectors.
- (ii) The PPP programme in India is led by the road sector projects. However, the PPP projects in the sector are presently facing various problems, resulting in a significant dip in the private investment. An analysis of the data of Central Road Sector projects costing Rs.150 crore, as contained in the Flash Report of October 2014 of Ministry of Statistics and Program Implementation (MOSPI), reveals that PPP projects involve significantly less completion time (average 50 months) compared to projects implemented through item rate contracts (average 126 months). Thus, PPPs in the road sector have benefitted the economy through significant reduction in the construction time.

**The issues and the suggested measures for reviving PPPs in the roads sector are discussed in Box 1.**

## BOX 1

### Reviving PPPs in the road sector

Over 90 per cent of the projects awarded on PPP mode in India are in the road sector. However, award of road projects has fallen significantly short of targets during the first two years of the Plan. During the year 2012-13, projects of 1,116 km were awarded (against a target of 9,000) while in the year 2013-14, a length of 3,169 km was awarded (against a target of 9,500 km). During 2014-15 (upto January 31, 2015), projects with a road length of 5,384 km have been awarded against an annual target of 8,500 km. but most of these projects have been awarded on Engineering Procurement and Construction (EPC) mode.

The issues impacting PPPs in the highway projects and the suggested measures are briefly discussed below.

**Aggressive bidding:** In several cases, there has been evidence of aggressive bidding. This is possibly because the pre-qualification criteria made a large number of applicants eligible for pre-qualification – a practice that is contrary to well-established international norms. There is a need to critically examine the present system in order to prevent potential project failure arising out of disorderly, aggressive or unsustainable bids.

**Land Acquisition and environmental clearances:** There has been a tendency to award projects before obtaining clearances and the requisite land for the project. This has delayed projects' cash flows and put developers and banks under stress. The road agencies need to streamline land acquisition and approval process in their respective organizations to ensure that the stipulations laid down in the concession agreements like availability of 80% of land and environmental clearance on or before the appointed date are strictly adhered to.

**Over-leveraged balance sheets and downward traffic trend:** Data shows that over 70 per cent of the project awarded in the highway sector are with 30-40 highways development companies. This has resulted in saturation of the appetite of these companies and most of them have highly leveraged balance sheets with little or no residual financial capacity to participate in fresh projects. The problem has been further compounded due to the recent downward trend in the traffic revenues, thereby making several of the projects financially unviable on DBFOT model. To address the above issues, a new Model Concession Agreement for Annuity Projects has been evolved after extensive stakeholder consultations. Under this hybrid model, the project is financed only to the extent of 50 per cent by the private investor and his investment is recovered through annuity or unitary payments to be paid by the Authority to the Concessionaire over a period of ten years commencing from the date of commissioning of the project. The remaining 50 per cent of the project cost is to be provided by the Government during the construction period, thereby reducing the cost of capital as well as the equity burden on the concessionaire. The Ministry of Road Transport & Highways need to quickly award the identified 13 projects worth Rs.14,442 crore on this model.

- (iii) While PPP mode of project implementation provides the advantage of no burden on the public exchequer in case of any cost overrun in the awarded projects it also suffers from time overruns. As per the database of MOSPI on road sector, the average delays in PPP projects is about 20 months, which is much less than the delays of 72 months in respect of non-PPP projects. Some of the factors leading to delays in PPP projects include land acquisition, environmental and forest clearances, change of scope, statutory clearances, delays in tie-up for project financing, etc.
- (iv) The Economic Survey 2014-15 has noted that electricity sector has a large number of stalled projects in both public and private sector. At the end of third quarter of financial year 2014-15, 80 projects were stalled in the electricity sector and 54 of these 80 are PPP projects. The issues and the suggested measures for reviving PPPs in the electricity sector are discussed in Box 2.
- (v) The other major sector that has been successful in attracting private investment through PPPs is the port sector. The port sector have achieved considerable success in awarding capacity addition projects during the recent years. **Some of the issues impacting the sector are discussed in Box 3.**

#### **IV. Challenges**

4. As evident from the previous sections, there has been a slowdown in the private investments from 2012-13 onwards. The slowdown is both in terms of award of new projects and also delays in implementation of already awarded projects. Some of the key issues responsible for this slowdown and the suggested measures are briefly discussed in the subsequent paragraphs:

##### **4.1 Restructuring of existing Model Concession Agreements (MCAs)**

The standardised documents, especially the Model Concession Agreements (MCAs), have helped in the expansion of PPPs in the country. More than 200 PPP road projects have been awarded since 2006 based on these MCAs. However, time and again, concerns have been raised regarding the rigidity of the MCAs and a need to introduce flexibility to address unforeseen situations in the future. The Economic Survey 2014-15 has identified the following issues in the existing PPP contracts: (i) existing contracts focus more on fiscal benefits than on efficient service provision; (ii) it neglects principles of allocating risk to the entity best able to manage it; (iii) there are no ex-ante structures for renegotiation; and (iv) contracts are over-dependent on market wisdom. The Economic Survey has also suggested that to revive private interest and bank lending in the infrastructure sector there is need for

restructuring of the PPP contracts, with burden sharing among different stakeholders.

## **4.2 Enforcement and monitoring of terms of Concession Agreement**

4.2.1 It has been experienced that in large number of cases, the project authorities do not discharge their contractual obligations in a timely manner which imposes additional costs on private sector participants. There is also lack of enforcement of the contractual obligations to be discharged by the Concessionaires. After extensive inter-Ministerial consultations, detailed guidelines, institutional arrangements and formats for monitoring of PPP projects have been issued in August 2012 with the approval of the Cabinet. While some of the Ministries and project authorities have commenced the monitoring exercise, a few organisations including National Highways Authority of India (NHAI) are yet to comply. It is crucial to ensure the enforcement and monitoring of concession agreements to protect the interest of the public authority as well as the users.

4.2.2 It is suggested that every Ministry engaged in PPP should create a dedicated division/cell for monitoring of PPPs with full time staff and sufficient budgetary resources to hire experts. The role and functions of these PPP divisions, as envisaged in the guidelines, may be specified by the respective Ministries.

## **4.3 Disputes resolution**

4.3.1 Infrastructure projects are fraught with disputes that cause inordinate delays due to slow resolution processes. Arbitration awards are almost invariably appealed against, resulting in long drawn out disputes that often last 3 to 10 years. As per available data, over Rs.21,000 crore worth disputes involving 870 cases are pending for resolution in the Road sector alone, involving both PPPs and public funded projects. The number of disputes in the PPP projects has shown a significant increase from 56 cases (involving Rs.803 crore) in 2013 to 116 cases (involving Rs.11,580 crore) in 2015. Absence of a clear and fast dispute resolution mechanism is increasing cost of projects and deterring investors' sentiments.

4.3.2 To attract private investment in the infrastructure sector, particularly from the foreign investors, it is essential to put in place an effective dispute resolution mechanism in line with the announcement made in the Budget 2015-16.

## **4.4 Issues related to infrastructure financing**

4.4.1 One of the principal reasons for slowdown in private investment across sectors relate to issues in financing of infrastructure. Some of the major issues involved are: (i) A large number of projects are struck or delayed turning many bank loans into NPAs and constraining further bank lending to infrastructure projects; (ii) Stranded and stressed project have led to shrinking of equity in PPP projects. Slowdown in fresh equity inflows have led to over-leveraged balance sheets of developers, constraining several domestic players from making further investments.; and (iii) The current practice of financing large infrastructure projects based on revenue streams spread over 20 to 30 years, but with project debt having tenure of 10 to 15 years, is unsustainable. In the absence of long-term financing instruments, it is becoming increasingly difficult to finance the growing requirements of infrastructure.

4.4.2 For enhancing infrastructure finance, some initiatives have been taken/announced, which include: (a) Setting up of a National Investment and Infrastructure Fund (NIIF) with an annual flow of Rs.20,000 crore from the Government. This will enable the Trust to raise debt, which in turn, could be invested as equity in infrastructure finance companies; and (b) Easing the guidelines for IIFCL allowing it to be the ‘lead bank’ and primary lender, if required. The change in norms will provide more autonomy to IIFCL and would increase its potential to finance PPP projects. Further, the new norms would also allow IIFCL to invest in AAA rated corporate bonds and undertake short term borrowings to manage its finances.

4.4.3 In addition to the above, there is a need to take forward the recommendations made by the High Level Committee on Financing Infrastructure in its Report submitted in August 2014. These mainly pertain to provision of long term debt through insurance, pension & provident funds, expansion of bond markets, credit enhancement measures through government guarantees, refinancing of existing debt, restructuring of non-performing assets (NPAs) of banks, review of current restrictions on group exposures of banks etc. The Report has been circulated to key stakeholders including Ministry of Finance, Infrastructure Ministries and Financial Institutions for their feedback.

## **4.5 Setting up of 3P India**

4.5.1 As announced in the Union Budget 2014-15, the Government is in the process of setting up a new entity, namely, 3P India with a corpus of Rs 500 crore to provide support to mainstreaming PPPs and to enable focussed attention on accelerating the delivery of efficient PPPs. It is suggested that the task for restructuring of the PPP contracts may be entrusted to this body that may house specialised skills in the area. The institution may have experts from

a wide background including industry, financial institutions, lenders, etc. with the requisite skill sets.

4.5.2 Besides restructuring existing contracts, it is suggested that the proposed new entity may also evolve PPP models to enable attracting private investments in sectors like Railways, Airports and also “social” sectors. This entity could also assist project promoters (public agencies) in identification, structuring and hand holding for a designated fee.

## **V. Conclusion**

5.1 There has been sharp decline in the private investments during the Twelfth Plan period, which has adversely impacted the infrastructure investment in the country. It may, therefore, be imperative to revitalise the PPPs for providing an impetus to the infrastructure investment.

5.2 To revive private interest in the infrastructure sector, first and foremost task is to undertake restructuring of the existing PPP contracts, with burden sharing among different stakeholders. As mentioned above, the responsibility relating to restructuring of existing PPP contracts as also evolving PPP models may be entrusted to the proposed new entity namely 3P India. This entity could also assist project promoters (public agencies) in identification, structuring and hand holding and may have experts from a wide background with the requisite skills.

5.3 Secondly, recommendations of the High Level Committee on Financing Infrastructure would need expeditious action by all concerned to address the issues impacting financing of PPPs. Thirdly, various issues which have slowed down private investments in the roads, electricity and port sectors (as detailed in Box 1, 2 and 3) would need to be addressed to revive PPPs in these sectors. Fourthly, there is a need to put in place dedicated institutional structures to ensure the enforcement and monitoring of concession agreements to protect the interest of the public authority as well as the users. In line with the announcement made in the Union Budget, there is also a need to put in place an effective dispute resolution mechanism expeditiously.

5.4 Finally, there is a need to formulate a comprehensive National PPP policy which should clearly spell out the objectives, scope and implementing principles of the PPP programme envisaged by the Government. The National PPP Policy should incorporate broad procedures and processes for adoption of a uniform approach on key issues that have impacted the growth of PPPs in recent times. It may be relevant to mention that an attempt to formulate a National PPP Policy was made by the Ministry of Finance (DEA) in 2011 but

it could not be concluded. This needs to be taken forward through wider stakeholder consultations.

## **BOX 2**

### **Reviving PPPs in the electricity sector**

The electricity sector has a large number of stalled projects in both public and private sector. At the end of third quarter of financial year 2014-15, 80 projects were stalled in the electricity sector and 54 of these 80 projects are PPP projects. The major issues impacting private investment in the electricity sector along with suggested remedial measures are discussed below.

(i) The framework for power procurement through competitive bidding notified in 2005 permitted bidders to assume long-term fuel cost and foreign exchange rate risk. Several power producers won the bids by quoting low on the escalable portions of the bid parameters. Subsequently, with rise in international coal prices and fall in the rupee, these bids have become unviable. In 2013, the Ministry of Power has notified revised standard bid documents on DBFOT and Design, Build, Finance, Own and Operate (DBFOO) model after extensive inter-Ministerial consultations. While projects are being awarded on DBFOO model, the bid document on DBFOT model is presently under review. This would need to be finalised on priority for awarding the Ultra Mega Power Projects (UMPPs) announced in the Union Budget 2015-16.

(ii) Several commissioned electricity generation projects have been stranded due to short supply of coal and gas. This has affected the returns to the developers and repayment of bank debt. There is a need to augment coal production by introducing PPP in coal mining. The Ministry of Coal, with extensive inter-Ministerial consultations, has prepared a MCA for enabling PPP in coal mining. The coal companies should award PPP projects using the above framework for augmenting the domestic coal production.

(iii) Several States have taken initiatives for setting up intra-state transmission lines through PPPs based on Model Concession Agreement (MCA). These include one 400 kV transmission line project in Madhya Pradesh and three 400 kV transmission line projects in Rajasthan. More such PPP transmission projects in other States would enable enhancing the flow of private investment in electricity transmission.

(iv) Electricity distribution is an area of concern. Given the deteriorating financial health of Discoms, there is need to attract private investment for augmenting and modernising the distribution systems. The inter-ministerial Task Force on Public Private Partnership in the Distribution of Electricity has already recommended a framework for PPP in the distribution segment. This framework may be adopted by States for cities and larger towns in the first instance. The Central Government may provide Viability Gap Funding for this purpose.

### BOX 3

#### Reviving PPPs in the port sector

In the port sector, projects with a total capacity of 491 million tonnes per annum (MTPA) have been awarded during Twelfth Plan which is nearly 2.65 times the actual capacity added during the Eleventh Plan by the major ports. Model Concession Agreements (MCAs) for Port Terminals and for the State Ports are available and can be used to award PPP projects. Some of the issues that needs to be examined in the sector are as under

(i) While the tariffs for the Major Ports are regulated by the Tariff Authority for Major Ports (TAMP), the Non-Major Ports under the States are free to set their tariffs based on the competition. This has put the Major Ports in a disadvantageous position in offering competitive tariffs as compared to Non-Major Ports. The existing method of fixing tariffs by TAMP is contrary to international best practice and leads to various anomalies. This has also led to tariff differentiation between berths at the same port. The port tariffs needs to be deregulated in the commodities where sufficient competition is available.

(ii) Several Indian ports suffer from low drafts which prevent entry of large modern vessels. Non-availability of required drafts in both the Major and Non-major Ports to handle the large size vessels may preclude the port sector from taking the economic benefits associated with handling of the large vessels. Hence, Ministry of Shipping should accelerate the pace of capital dredging and where the project size is large, private participation may also be explored along with the provision of VGF.

(iii) To enable the Ports in the public sector in attracting investment as well as leveraging the huge land resources lying unused with them, the Union Budget 2015-16 has proposed for corporatizing the Ports in the public sector to become companies under the Companies Act. This is expected to accelerate the investment in Major Ports and create additional capacity in the Port Sector.

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