Public Private Partnerships in Infrastructure

9.93 Taking cognizance of the advantages that PPP offers in terms of cost saving, access to specialized expertise and proprietary technology, sharing of risks with the private sector and the ability to take up a larger shelf of infrastructure investments, Government of India is actively encouraging them. To expedite the PPP projects in the Central sector, the need for streamlining the appraisal process was felt and accordingly an appraisal mechanism has been notified including the setting up of the PPP Appraisal Committee that will be responsible for the appraisal of PPP projects in the Central sector. To accelerate and increase PPPs in infrastructure, two major initiatives have been taken by the Government: (a) provision of viability gap funding; and (b) setting up of a SPV, India Infrastructure Finance Company Limited (IIFCL) to meet the long term financing requirements of potential investors. The viability gap funding will normally be in the form of a capital grant at the stage of project construction, not exceeding 20 per cent of the total project cost. In order to be eligible for funding under this viability gap support scheme, the PPP must be implemented by an entity with at least 51 per cent private equity.Although a provision of Rs.1,500 crore for ‘ viability gap’ funding for infrastructure projects was made in the Budget, projects are yet to be sanctioned under the scheme. The operationalisation of the IIFCL is underway. (Box 9.5)

Box 9.5 : India Infrastructure Finance Company Limited

IIFCL was incorporated on January 5, 2006 with a paid up capital of Rs.10 crore and an authorized capital of Rs. 1,000 crore. Apart from its equity, IIFCL will be funded through long term debt raised from the open market. To enable the company to do so, the Government may extend a guarantee for repayment of principal and interest. The extent of guarantee provided by Government of India in the first year of operations is expected at around Rs.10,000 crore.

The setting up of IIFCL as a wholly owned Government company redeems the promise made in the Budget Speech for 2005-06. There were many infrastructure projects which were financially viable but, in the current situation, faced difficulties in raising resources. It was proposed that such projects in specified sectors- roads, ports, airports and tourism be funded through a financial SPV. The SPV would lend funds, especially debt of longer term maturity, directly to the eligible projects to supplement other loans from banks and financial institutions Government will communicate the borrowing limit to the SPV at the beginning of each fiscal year. For 2005-06, the borrowing limit was fixed at Rs.10,000 crore.

IIFCL is the SPV created. In keeping with the Budget announcement, the company would render financial assistance through-

- Direct lending to eligible projects
- Refinance to banks and financial institutions (FIs) for loans with tenor of five years or more
- Any other method approved by GOI

The other salient features of infrastructure funding through the company are:

- Loan assistance from SPV shall not exceed 20 per cent of project cost.
- A project awarded to a private sector company for development, financing, construction through PPP shall have overriding priority under the scheme.
- Private sector companies will not be eligible for direct lending and only the refinancing option will be available in such cases. Further, the total lending to such projects will be kept within 20 per cent of the lending programme of the IIFCL.
- The rate of interest charged by IIFCL shall be such as to cover all fund costs including guarantee fee as well as administrative cost.

IIFCL is expected to be a very lean organization which would keep overheads to the minimum and thus keep the cost of funds for infrastructure at a competitive level. The company would fill the gap for long term infrastructure finance which the banks are not in a position to address owing to concerns relating to mismatches in assets and liabilities.

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