

**GOVERNMENT OF INDIA
PLANNING
LOK SABHA**

UNSTARRED QUESTION NO:4722

ANSWERED ON:08.12.2010

INVESTMENT BY PRIVATE SECTOR IN BASIC INFRASTRUCTURE PROJECTS

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Will the Minister of PLANNING be pleased to state:

- (a) whether the Government has promoted private sector investments in basic infrastructural projects like road, railways, power, etc including consumer and social sector;
- (b) if so, the details thereof during the last three years and the current year;
- (c) whether any policy has been framed in this regard;
- (d) if so, the details thereof;
- (e) the sectors in which investment has been made as per the policy; and
- (f) the estimated funds required for the development of basic infrastructural projects during the next five years?

Answer

MINISTER OF STATE IN THE MINISTRY OF PLANNING, PARLIAMENTARY AFFAIRS, PERSONNEL PUBLIC GRIEVANCES & PENSION(SHRI.V. NARAYANASAMY)

(a) : The strategy for infrastructure development in the Eleventh Plan reflects the dominant role of the public sector in building infrastructure. However, it also recognizes that the total resources required to meet the deficit in infrastructure exceed the capacity of the public sector. It is, therefore, necessary to attract private investment through appropriate forms of Public Private Partnerships(PPP) to meet the overall investment requirements.

The relative role of the public and private sectors will vary. In some sectors such as irrigation and water resources management, construction of rural roads, capital dredging at major ports, as well as in certain economically or situationally disadvantaged regions, the bulk of the investment in infrastructure would have to come from the public sector. Available public sector resources must therefore be directed to these sectors as a matter of priority. Precisely for this reason, PPPs must be seriously explored in other areas.

The strategy for the Eleventh Plan encourages private sector participation directly as well as through various forms of PPPs where desirable and feasible.

(b) : As a part of the Mid Term Appraisal of the Eleventh Plan, the Planning Commission has assessed the investment in infrastructure during the first two years of the Plan and also revised the projections of investment for the entire Plan period based on available data. The revised projection of investment for the Eleventh Plan is Rs. 20,54,205 crore, which is almost equal to the initial target of Rs. 20,56,150 crore.

The projections and the achievement in the first three years of the plan is as under:

Years 2007-08 2008-09 2009-10

Projections 2,70,273 3,21,579 3,89,266

Achievement 3,03,807 3,59,192 4,02,829
(Actual) (Actual) (Proj.)

(c) & (d): The Government has framed number of policies for promoting private sector investment through Public Private Partnership. Some of the policy initiatives are enumerated below:

Cabinet Committee on Infrastructure (CCI)

The Cabinet Committee on Infrastructure (CCI) was constituted under the chairmanship of the prime Minister on July 6, 2009. CCI

approves and reviews policies and projects across infrastructure sectors.

Public Private Partnership Appraisal Committee (PPPAC)

With a view to streamlining and simplifying the appraisal and approval process for PPP projects, a Public Private Partnership Appraisal Committee (PPPAC) has been constituted consisting of Secretary, Department of Economic Affairs as its chairman and Secretaries of Planning Commission, Department of Expenditure, Department of Legal Affairs and the concerned Administrative Department as its members.

Empowered Committee/Institution (EC/EI)

An institutional framework comprising an inter-ministerial Empowered Committee has been established for the purpose of appraising and approving projects for availing the VGF grant of upto 20 per cent of the cost of infrastructure projects undertaken through PPP.

Viability Gap Funding (VGF)

Recognising that the externalities engendered by infrastructure projects cannot always be captured by project sponsors, a Viability Gap Funding (VGF) Scheme was notified in 2006 to enhance the financial viability of competitively bid infrastructure projects which are justified by economic returns, but do not pass the standard thresholds of financial returns. Under the scheme, grant assistance of upto 20 per cent of capital costs is provided by the Central Government to PPP projects undertaken by any Central Ministry, State Government, statutory entity or local body, thus leveraging budgetary resources to access a larger pool of private capital. An additional grant of up to 20 per cent of project costs can be provided by the sponsoring Ministry, State Government or project authority.

India Infrastructure Finance Company Limited (IIFCL)

India Infrastructure Finance Company Limited (IIFCL) was set up as a non-banking company for providing long-term loans for financing infrastructure projects that typically involve long gestation periods. IIFCL provides financial assistance of up to 20 per cent of the project costs, both through direct lending to project companies and by refinancing banks and financial institutions. Upto one-half of the lending by IIFCL can also be in the form of subordinated debt, which often serves as quasi-equity.

Tax Exemption

The Government has provided several incentives such as tax exemption and duty free imports of road building equipment and machinery to encourage private sector participation. Also, 100 per cent exemption on income tax is available to eligible infrastructure projects for a period of 10 years.

Advisory Services.

Implementation of PPP projects requires appropriate advisory services in terms of preparation of project agreements, structuring of projects, etc. Planning Commission has operationalised a scheme for technical assistance to project authorities by providing consultants for projects. Ministry of Finance has also created an India Infrastructure Project Development Fund (IIPDF) to provide loans for meeting the development expenses, including the cost of engaging consultants for PPP projects.

Model Documents

Standardised guidelines and model documents that incorporate key principles and best practices relating to the bid process for PPP projects relating to the bid process for PPP projects have also been developed.

Guidelines for the pre-qualification of bidders along with a Model Request for Qualification (RFQ) document have been approved by the Committee on Infrastructure and issued by the Ministry of finance for application to all PPP projects.

(e): Investments have been made in the Electricity, Telecom, Highways, Ports sectors under this policy.

(f): The Planning Commission, as a part of the Mid-Term Appraisal of the Eleventh Five Year Plan, has made a preliminary estimate of investment of Rs.40,99,240 crore in physical Infrastructure for the Twelfth Five Year Plan.