

Cityscapes 2008 : Convention on Urban Infrastructure

April 16, 2008, New Delhi

Speech by Mr M Ramachandran, Secretary, Ministry of Urban Development

- The timing for the conference is highly appropriate. On one hand PPPs and private sector role in infrastructure has been a mixed experience so far. In certain sectors of infrastructure the role of private sector is now well-established (for eg. Telecom and aviation services); in sectors such as energy and highways PPPs have begun to take off; while we have had only limited success so far in sectors such as urban infrastructure.

- On the other, Indian corporate sector is experiencing growth both within the country and is finding opportunities for spreading its wings globally. It is therefore time to reflect on how we can leverage the capability, growth appetite, expertise and competitiveness of India's corporate sector and build stronger and bigger partnerships in the infrastructure sector.

- 'Partnerships' by its very meaning implies working together, where each player has an equally important role. PPP in infrastructure may be seen and understood as bringing in private sector management, efficiency and expertise; and private sector investments to the extent feasible. Private sector efficiency and expertise can be dovetailed in public services through robust and balanced contractual arrangements. Private sector brings in some competencies that are as much applicable in public services, such as - customer orientation, application of management principles, financial discipline and cost competitiveness. At the same time, for meaningful partnerships, the private sector too needs to develop competencies required for delivering public services.

- The government has already under some policy measures for bringing in PPP, such as:

- GOI has formulated PPP Guidelines on Urban Infrastructure, particularly Water supply and sanitation - circulated to States on 23rd March, 2004.
- Technical Assistance facility by ADB provided for promoting PPP at State level
 - Shall create at least 5 projects at ULB level to serve as model projects.
 - US \$ 2 million (Rs. 80 Crore) in pipeline for establishing PPP Cell in MOUD for supporting 3 to 4 pilot PPP projects.

- In the past few years, energy and transport sectors have demonstrated successes in PPPs. The journey of making these sectors attractive for private participation has been a long one. Appropriate regulatory regime, improved efficiency of utilities, consumer awareness, and transparent tariff structures - reforms are underway in a number of areas to make the sectors attractive for private participation. It has been a long and hard journey - and a journey traversed together by both government and the private sector.

- With respect to PPPs, the urban infrastructure sector is the most complex, has high levels of externalities and presents major challenges. Municipalities and urban agencies are engaged in delivery of 'local public goods'.

- Public investment therefore needs to take the lead. In cognizance of this, Government of India has launched about a year ago India's largest urban development and renewal programme - the Jawaharlal Nehru National Renewal Mission (JNNURM).

- The advent of the ambitious JNNURM to cater to the yawning gap in the urban infrastructure of the major cities of the country is a step anticipated in the right direction to make the cities, other than the metro cities, as a potential and viable option for migration and for industries development.

- From current estimates based on city development plans prepared under JNNURM, Urban infrastructure investment requirement is approximately Rs. 3,35,000 Crore for the 63 Mission Cities alone. Of this an investment of about Rs. 57,000 Crore is envisaged by 43 cities in the sectors of water supply, sewerage and drainage. If the total urban infrastructure investment requirement is scaled up to country level the figures are mammoth Rs. 800,000 Crore for 5161 towns and cities.

- Under the JNNURM, it is envisaged to invest Rs. 50,000 Crore for urban infrastructure. The Mission share should help leverage more than similar amount of contribution from States and Cities. JNNURM, with reform driven and part-grant finance at the macro level and at the micro level with projects, is congenial for PPP in urban sector.

- JNNURM grants may be used for tariff reforms, escrow structures good debt-equity structures, creation of SPVs and for shadow tariffs.

- About Rs. 47,500 Crore worth of projects have been sanctioned by both the Sub-Mission under the Mission for 63 cities. Bulk of these investments are for core urban services, such as water supply, sewerage and sanitation, drainage, roads and urban

transport, housing for the poor and basic services for the poor.

- The Mission is cognizant of the fact that there is a large disparity in the capacities of municipal bodies across the country. Recognizing the significant constraints in project implementation capacity at the city level, the Mission is undertaking a number of steps, such as strengthening monitoring systems through involving profession at independent agencies. Appraisal of Projects and city plans by professional agencies, and Training and capacity building programmes.

- To enhance the financial capacities of municipal bodies, the Ministry Of Urban Development is undertaking a number of measure, such as launch of a Pooled Finance Development Fund to encourage raising market debt through pooled finance instruments, Undertaking credit rating of municipal bodies and placing emphasis on project viability and cost recovery in the process of sanction of projects.

- Humble but significant start has been made under the Mission in terms of encouraging PPP, which needs to be sustained. PPP projects under JNNURM - a total of 22 projects have been sanctioned which envisage PPP

- 3 Projects in Water Supply worth Rs. 246 Cr (bringing in private investment)
- 1 Project in Sewerage worth Rs. 32 Cr (bringing in private investment)
- 1 MRTS project (bringing in private investment)
- 17 Solid Waste Management projects (PPP envisaged in O&M)

- Given the pace and scale of this Mission, significant role will need to be played by the private sector. Partnerships will be required from the private sector and non-government sector not just in terms of contracting capacity for project implementation; but also in the area of implementation of urban sector reforms that goes hand-in-hand with project implementation.

- The challenges in making this happen are many. While we need to build capacity of our municipal bodies, private sector capacities also need to be developed in delivering public services. Private agencies in delivery of public services will need to work in an environment of public scrutiny and wide-spread transparency. They will need to work towards balancing their profitability goals with the public's willingness and ability to pay for the services. They will need to build systems to serve all classes of citizens, and not any preferred segment.

- The session may explore the factors affecting the PPP in sectors like Solid Waste Management, Sanitation, etc.,

- The above functions being obligatory on the part of the cities under the 74th constitutional amendment.

- Challenges to financing urban sector projects - (i) to address the 'real' cost of operations of urban infrastructure services, (ii) development of financial models that can provide some assured return on investment

- Ways to increase the efficiency levels of these sectors by introducing reforms in the processes

- poor understanding in structuring PPP models - by the ULB and private sector operators

- Corporatization and induction of private sector management

- People-to-People processes, like complaint redressal system and collection and payment services through common facilitation centers, may be the areas for PPP to establish and emulate service delivery models, followed in the sectors like IT and Telecom

- Rationalizing the charges for service delivery, may be attempted, like in the electricity and telecom sector, by creating regulatory authorities.

- Cities may explore the Swiss challenge type contracts

- Some thoughts on defining way forward for the Central government and the State government

- The Central government may take up the role of a facilitator. It can support the process by measures like

- Encouraging FDI
- Formulating policy for regulatory framework
- Facilitating urban infrastructure institutions

- Increasing scope of definition of 'Urban Infrastructure', under the Income Tax Act
- Providing Tax holiday through encouraging tax free municipal bonds and Interest subsidy for urban infrastructure development funds
- Creation of dedicated Pooled fund mechanism for PPP projects at the Central level.

- At the same time, the State government should respond through:

- Enactment of model municipal law to enable PPP
- Setting up regulatory authorities
- Creating State level urban infrastructure institutions
- Creation of cadre of professional city management functionaries