

Major Change in Scope and Amount

Project Number: 40243
Technical Assistance Number: 4890
July 2008

India: Mainstreaming Public–Private Partnerships at State Level

I. INTRODUCTION

1. The technical assistance (TA) project entitled Mainstreaming Public–Private Partnerships at State Level was approved on 11 December 2006 for the equivalent of \$3 million from the Japan Special Fund (\$1.8 million) and the TA funding program (\$1.2 million) of the Asian Development Bank (ADB). The Government of India was to provide the equivalent of \$750,000 to finance the local currency cost of counterpart staff, office facilities, administrative support, facilitation for meetings, and other expenses. The Department of Economic Affairs (DEA) of the Ministry of Finance is the Executing Agency for the TA project. The TA is being implemented by the DEA's public–private partnership (PPP) cell and participating states. The TA closing date is 31 December 2010.

2. The TA has two complementary components: capacity development and institutionalization of PPP skills. Capacity development for the PPP cells includes (i) determining training needs; (ii) developing relevant management information systems (MIS); (iii) developing guidelines and manuals; (iv) supporting project preparation, appraisal, and evaluation; and (v) disseminating knowledge and awareness of international best practices. The second component is designed to assist the PPP cells in institutionalizing their skills by (i) refining the PPP policy and regulatory framework, (ii) meeting compliance/public safety norms, (iii) improving MIS, (iv) improving bidding documents and procedures, (v) determining risk sharing, (vi) conducting value-added research, and (vii) determining adequate monitoring arrangements.

II. BACKGROUND

3. With the state of its physical infrastructure, India will have difficulty sustaining its current rate of economic growth over the medium term. A massive increase in investment is urgently needed in power, roads, ports, airports, water, railways, and urban facilities. Because state resources are limited, the Government has stepped up its efforts to catalyze greater private investment in infrastructure development and to mainstream PPP in public sector operations.

4. However, the capacity to effectively conceptualize, procure, and manage PPPs is limited. PPPs are often complex transactions, needing a clear specification of the services to be provided, as well as an understanding of the way risks are allocated between the public and private sectors. Internationally, governments embarking on PPP programs have often developed new policy, legal, and institutional frameworks; individual training; and technical support to provide the required organizational and individual capacities for mainstreaming PPPs. Accordingly, the TA for PPP cells in 15 selected states aims to develop and institutionalize PPP-related skills for generating a critical mass of PPPs to meet India's varied infrastructure needs. Significant implementation progress has been made in the following areas since the TA project began:

- (i) Two specialists per PPP cell—a PPP specialist and an MIS specialist—have been engaged for most¹ of the PPP cells in the 15 participating states.
- (ii) Three experts—a PPP specialist, an MIS specialist, and a financial specialist—have been engaged at the DEA PPP cell. The Government has also appointed a joint director and assistant director for the DEA PPP cell.
- (iii) A panel of legal experts to provide advisory services is in the process of being finalized.
- (iv) Orientation workshops, PPP training programs, and field visits have been undertaken.

5. TA implementation has helped (i) enhance the capacity of the DEA PPP cell to mainstream PPPs through implementation coordination and technical advice, (ii) the PPP cells in the participating states create awareness of the benefits from and potential for PPPs, and (iii) identify potential PPP projects in the participating states and build databases on PPPs. TA implementation is also developing the capacity of the participating states to recognize and structure risk exposures between the public and private sectors.

III. PROPOSED MAJOR CHANGE IN SCOPE AND AMOUNT (INCREASE IN TECHNICAL ASSISTANCE BUDGET)

6. The TA, along with ongoing PPP mainstreaming efforts of the Government, has generated interest among the states in pursuing PPPs as the preferred mode of infrastructure development. These PPPs, combined with the rapid growth in sectors such as power, telecommunications, and transport have increased the demand for experienced specialists. The resulting imbalance between demand and supply has significantly increased the remuneration of the specialists sought under the TA project. As a result, it has become increasingly difficult to hire and retain persons with the requisite skills in the PPP cells at the DEA and in the participating states. During a visit to ADB headquarters in April 2008, a Government delegation requested ADB for additional funds to ensure the availability of the services of high quality domestic experts in the face of rapidly escalating costs.

7. Ensuring appropriately skilled consulting inputs is essential for capacity building during the formative stage of institutionalizing PPPs in the participating states. In addition to seeking higher remuneration than envisaged, qualified specialists are reluctant to be placed in less developed states. Attempts to recruit specialists at the initial estimated remuneration level did not succeed because of the rapid rise in the remuneration expectations of the specialists. To accommodate the higher remuneration sought by the specialists, the contract duration was shortened in order to begin TA implementation. A number of such short contracts are now

¹ Twelve PPP specialists and 13 MIS specialists.

coming to a close and additional funding is needed for renewal. The change in TA scope due to the escalation in the remuneration for specialists is estimated to require an additional \$2 million in funding (Appendix). This additional funding will be financed on a grant basis by ADB's TA funding program. The Government will provide the equivalent of an additional \$510,000 to finance the local currency cost of counterpart staff, office facilities, administrative support, facilitation for meetings, and other expenses.

IV. ASSESSMENT

8. The Government has recognized the TA's role in creating awareness and building capacity to change the values developed over decades of implementing publicly financed and managed projects. This is reflected in the growing demand for ADB support across the entire spectrum of PPPs, starting from capacity development and leading to project development and financing. With the increasing interest of the states in pursuing the PPP option for bridging the infrastructure deficit, project proposals have emerged with the potential for applying the PPP modality. In this context, the TA is integral to the Government's framework for PPP development, which includes the following:

- (i) A PPP cell in the DEA for coordinating the mainstreaming of PPPs nationwide,
- (ii) PPP cells in states for identifying and developing potential PPP opportunities,
- (iii) The India Infrastructure Project Development Fund for financing PPP project-preparation activities such as conducting feasibility studies,
- (iv) The India Infrastructure Finance Company Limited for facilitating access to long-term funds for infrastructure development,² and
- (v) The Viability Gap Fund for PPP projects that require initial support to become viable.

9. Continuing the momentum for mainstreaming PPPs to bridge the significant infrastructure deficit is a high priority of the Government. While the full impact of the TA will be felt once the capacity building and institutionalization process is completed, the TA is helping to strengthen the demand side of the PPPs through awareness and capacity building. The request for additional funding for the TA project is to pursue its original purpose. This request is consistent with the growing partnership between ADB and the Government for mainstreaming PPPs. Increasing the opportunities for private sector participation in infrastructure development through PPPs is in line with ADB's long-term strategic framework,³ which envisages greater ADB involvement in private sector development.

V. THE PRESIDENT'S RECOMMENDATION

10. The President recommends that the Board approve the major change in scope and increase in the budget amount of the technical assistance not exceeding the equivalent of \$2,000,000 on a grant basis to the Government of India for the Technical Assistance⁴ on Mainstreaming Public-Private Partnerships at State Level.

² ADB. 2007. *Report and Recommendation of the President to the Board of Directors on a Proposed Multitranche Financing Facility and Technical Assistance Grant to India for India Infrastructure Project Financing Facility*. Manila (MFF 0017-IND, Loan 2404-IND [for \$500 million, approved on 14 December], and TA 7030-IND).

³ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008-2020*. Manila.

⁴ ADB. 2006. *Technical Assistance to India for Mainstreaming Public-Private Partnerships at State Level*. Manila (TA4890-IND, approved on 11 December).

REVISED COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Original Cost ^a	Additional Funding	Revised Cost ^b
A. Asian Development Bank (ADB) Financing			
1. Consultants			
a. Remuneration and Per Diem			
i. National Consultants	1,899.0	2,000	3,899.0
ii. Legal Firm on Retainer Basis	525.0	0.0	525.0
b. Local Travel	76.0	0.0	76.0
c. Reports and Communications	19.0	0.0	19.0
2. Equipment (including data systems)	120.0	0.0	120.0
Workshops, Training and Seminars, and			
3. Conferences			
a. Workshops	15.0	0.0	15.0
b. Capability Development for Staff in PPP Cells	57.0	0.0	57.0
c. Partnership Development	51.0	0.0	51.0
4. Representative for Contract Negotiations	9.0	0.0	9.0
5. Miscellaneous Administrative and Support Costs	19.0	0.0	19.0
6. Contingencies	210.0	0.0	210.0
Subtotal (A)	3,000.0	2,000.0	5,000.0
B. Government Financing			
1. Office Accommodation and Transport	360.0	240.0	600.0
2. Remuneration of Counterpart Staff	135.0	100.0	235.0
3. Administrative Support	180.0	120.0	300.0
4. Facilitation for Meetings	45.0	30.0	75.0
5. Others	30.0	20.0	50.0
Subtotal (B)	750.0	510.0	1,260.0
Total	3,750.0	2,510.0	6,260.0

PPP = public-private partnership.

^a Financed by the Japan Special Fund, funded by the Government of Japan (\$1.8 million), and ADB's technical assistance funding program (\$1.2 million).

^b In the revised technical assistance amount (\$5 million), ADB's technical assistance funding program will finance \$3.2 million.

Source: ADB estimates.