

Government of India
Department of Economic Affairs
PPP cell

**Empowered Committee for the Scheme to Support Public Private Partnerships
(PPPs) in Infrastructure**

10th Meeting March 31, 2010

The tenth meeting of the Empowered Committee (EC) to consider the proposal for inclusion of PPP projects from health and education (including skill development) sectors as eligible for Viability Gap Funding (VGF) support under the Scheme was held on March 31, 2010. The list of participants is annexed.

2. Joint Secretary, Department of Economic Affairs (DEA) presented the proposal. It was noted that the Scheme provided VGF assistance to the PPP projects belonging to five broad categories, viz., transport, power, urban sector, infrastructure projects in SEZs and infrastructure projects in tourism sector. To provide adequate flexibility to respond to the changing requirements, the Scheme provides that the Empowered Committee may, with the approval of the Finance Minister, add or delete sectors/sub-sectors from the list of eligible sectors.

3. Joint Secretary, DEA indicated that the challenges in education, health and skill development sectors were enormous; there was need to build up the human capital, embellish the service delivery and address the shortfalls in the physical infrastructure. The Government had recognized the need for engaging in PPPs in these sectors to augment the public investments. The 11th Five Year Plan highlights the areas where PPPs are being encouraged for attaining human development targets. It was noted that the United Kingdoms had successfully harnessed private sector in health and education sectors. The outcomes include curtailment of time and cost overruns and increase in the school/health attainment levels. Indian experience in engaging with PPPs in these sectors was also showing an increasing trend, especially at the State level. The facilitative mechanism of viability gap funding for these sectors would encourage PPPs through enhancement of project viability, with user charges based on ability to pay and encourage inclusive growth. Hence, it was proposed to include these sectors as eligible for VGF support.

4. Secretary, Planning Commission noted that before recommending the proposal for clearance by the Finance Minister, the Empowered Committee could consider having a consultation with the Ministries concerned. Such an approach would ensure acceptance of the concept by the Ministries concerned and thus encourage the use of PPP framework in the areas identified in the 11th Five Year Plan document. It was suggested that the status of PPPs in the proposed sectors in the country could also be documented to facilitate a view on whether PPPs can be an effective modality for advancing the objectives/targets of the social sector. For instance, the Health Insurance Scheme had been successful in meeting the aspired outcomes. It was pointed out that in the sectors under consideration, the challenge was to create infrastructure as well as benchmark the performance and delivery of services. Hence, it may also be examined whether infrastructure creation and service delivery would be considered eligible for support under the Scheme.

5. Adviser to Deputy Chairman, Planning Commission reiterated the need to have consultative mechanism to wear down the Central Government's resistance to PPPs. In addition, he made the following observations:

- i. The Scheme for Support to PPPs in Infrastructure envisages provision of VGF to PPP projects in the infrastructure sector. Hence, it may not be appropriate to include health and education sectors in the existing Scheme. At a later stage, the need for evolving a separate Scheme for social sectors may be considered.
- ii. PPPs in education sector cannot follow the bidding process established for core infrastructure sectors since delivery of education cannot be on profit. Hence, the PPP framework was not amenable for health and education sectors.
- iii. The international experience on engaging with the private sector in the PPP mode in health and education sectors did not adopt a mechanism based on capital grant. The PPP schools and hospitals in the United Kingdoms had been established within the annuity framework. Hence, the VGF mechanism was not suited for the proposed sectors.

6. Secretary, Expenditure noted that the Department of Expenditure (DoE) had been suggesting to the Departments to explore provisioning of PPP components in delivery of health and education programmes. While there appeared to be broad acceptance to the PPP framework, there remained

ambiguity and resistance towards shift from public investments to the PPP approach. It was suggested that consultation with the Administrative Ministries concerned may be facilitated to take them on board regarding encouraging PPPs in health and education sectors before inclusion of the social sectors in the VGF Scheme.

7. Joint Secretary, DoE noted that further discussion would be useful to consider possible paradigms which could be supported as well as benchmarks for performance outcomes in respect of projects in the proposed sectors. Chairman of the Empowered Committee observed that the such specifications and structuring would vary for different sectors and could be considered by the appraising departments while considering individual projects.

8. Joint Secretary, DEA responded to the observations made by Planning Commission and DoE:

- i. Department of Economic Affairs had undertaken consultation with 15 State Governments and Central Ministries of Health and Human Resource Development regarding applicability of the PPP approach for health and education sectors. The consultations had been succeeded by two workshops at Ahmedabad and Goa (2008 and 2009 respectively) wherein the State Governments and Central Ministries had endorsed the views for need for in these sectors and also suggested possible models in the PPP modality.
- ii. In the recently concluded meet on 'Challenges and Opportunities for Infrastructure' organized by Planning Commission and inaugurated by the Prime Minister, the Minister (HFW) and Minister (HRD) had supported PPPs in these sectors.
- iii. The Scheme for Financial Support to PPPs in Infrastructure is primarily a facilitative mechanism for State sector projects. Generally, Central Government PPPs have not sought assistance under the Scheme. Of the 59 projects approved under the Scheme till date, 57 projects were from State Governments. There was request from the State Governments for inclusion of these sectors in the Scheme.
- iv. Many projects in the health and education sectors have been posed by State Governments and Municipalities for support under India Infrastructure Project Development Fund (IIPDF). The projects were considered by the Empowered Institution for the Scheme

wherein representatives of Central Government Ministries (viz. MoHRD and MoHFW) were also present. The projects have been supported by the Ministries for being developed in the PPP modality. Hence, there was acceptability of the concept by the Central Ministries for utilization of the PPP modality by the State Governments for these sectors.

- v. The Scheme was for provisioning of Viability Gap Funding for PPP projects in infrastructure sectors. These sectors had been included in the definition of infrastructure postulated by RBI, Rangarajan Committee, Department of Revenue, etc. Hence, inclusion of the sectors, defined as components of infrastructure, could be considered in the context of the VGF Scheme.
- vi. While the experience of the United Kingdom indicated successful use of PPPs in health and education sectors in the annuity/availability based payments mechanisms, it was not a natural corollary that that was the *only possible way* of developing the PPP framework; it was pertinent to note that a similar framework was being utilized by UK for road sector while India has successfully harnessed the VGF mechanism for developing highways. Hence, VGF framework could also be supported for the social sector, subject to the project being developed in accordance with the provisions of the Scheme. It was emphasized that utilizing a capital and maintenance support mechanism or an annuity framework depended upon the manner in which the project was developed; both models could be amenable for PPPs in diverse sectors. Many State Governments had requested DEA to provide this enabling provision and projects were being developed by various State Governments and Ministry of Labour.
- vii. The concept of provisioning of education as a non-profit activity as advocated by MoHRD did not imply that there could not be any commercial stream of revenue in these sectors; it implied that profits could not be distributed as dividends by the private sector companies. The intent was not to run institutions such as Doon Schools or Amity University as non-profit institutions. There existed mechanism to allow private sector to get returns on equity invested in education sector projects; the same continued to remain applicable for the PPP projects in these sectors as well. It was not

proposed that the VGF Scheme would support projects which were not in compliance with the law of the land.

- viii. Hence, the inclusion of health and education (including skill development) sectors as eligible for support under the Scheme for Support to PPPs in Infrastructure could be considered. It would serve as an enabling mechanism for enhancing the project viability of the PPP projects in these sectors. Individual projects, their financials and structuring as well as the project documentation and benchmarking of performance parameters would continue to undergo the rigor of appraisal on project to project basis as provided under the Scheme.
9. Chairman of the Empowered Committee summarized the discussion. He noted that the members of the Empowered Committee welcomed PPPs in the social sector. However, there was consensus that the Central Ministries concerned may be consulted to ensure their acceptability of the concept of PPPs and VGF for projects and programmes in health, education and skill development sectors. Further, Planning Commission had concerns about the requirements of the sectors under consideration being adequately met by the extant Scheme.
10. It was decided that DEA would undertake further consultations with the Central Ministries to ascertain their views on the applicability of PPPs in their respective sectors and determine sector specific parameters and paradigms. Development of a new Scheme may also be explored in case the need so emerges during the said consultations.

(Action: DEA)
11. The meeting ended with vote of thanks to the Chair.
