

Government of India
Department of Economic Affairs
PPP cell

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

11th Meeting July 12, 2010

The eleventh 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 and Guidelines for Financial Support to Public Private Partnerships (PPPs) in Infrastructure*" ["Scheme"] was held on July 12, 2010. The list of participants is annexed.

2. Joint Secretary (JS), Department of Economic Affairs (DEA) presented the proposal for consideration in furtherance to the 10th EC meeting held on March 31, 2010. The EC was reminded that in that meeting, the Planning Commission had raised issues regarding the applicability of the Scheme to social sectors, and, utility of VGF for making projects in these sectors viable; and, had advised further consultations with Central Ministries in order to ascertain their views on the aforesaid aspects. It was brought to the notice of the EC that subsequent to the meeting, two letters dated May 25, 2010 and June 29, 2010 were received from Advisor to Deputy Chairman, Planning Commission. The letters averred that a decision had been taken to the effect that a new scheme would be prepared for financial support to PPPs in the education and health sectors, and, further informed that a scheme along these lines was under preparation in the Planning Commission. Advisor to Deputy Chairman reiterated the need to amend the minutes of the 10th EC meeting, in line with the comments sent earlier by him. JS, DEA stated that as per the understanding of the Secretariat of the EC, the minutes accurately depicted the record of the proceedings of the EC and the issues raised by the Planning Commission would be addressed in the short presentation proposed for the meeting. The Chair directed JS, DEA to present the proposal.

3. The presentation outlined the basic features of the Scheme. The Scheme defined PPPs as projects based on contracts or concessions, between Government

and the private sector, for delivering infrastructure services on payment of user charges. It was reiterated that the Scheme provides for the Empowered Committee, with the approval of the Finance Minister, to add or delete sectors/sub-sectors from the list of eligible sectors. The EC noted the aforementioned.

4. JS, DEA, in his presentation, further drew attention to considerations relevant for inclusion of the Education and Health sector projects in the VGF Scheme. The reasons cited were as follows:

- i. Classification Precedent: Classification precedent by other Government agencies such as Reserve Bank of India (RBI), National Statistical Commission (NSC), Insurance Regulatory and Development Authority (IRDA) and Securities Exchange Board of India (SEBI). RBI's External Commercial Borrowings (ECB) list and the Income Tax Direct Tax Code (DTC) etc, which cover social sectors as under infrastructure category. Social sectors have been classified as infrastructure in view of their importance in promoting human resource development in an equitable and balanced manner and are regarded as critical to the overall growth strategy as other core infrastructure sectors.
- ii. Policy reasons for categorising this sector as infrastructure on account of 'support' considerations: Classification of this sector as an infrastructure sector can be for two broad reasons, support and surveillance. It was reiterated that social sectors need large budgetary provisions to address shortfalls in infrastructure, appropriate build up of human capital and augmentation of service delivery. In this context, PPPs were ideally suited for supplementing public resources and augmenting service delivery in the social sectors. Thus, the justification for providing policy support to PPPs in these sectors was strong.
- iii. Suitability of Education and Health sectors on PPP basis: The Design Build Finance Maintain Operate and Transfer (DBFMOT) model, used for structuring PPPs, had relevance to a number of social sectors as well. Some of the project types that can be taken up using this model, in these sectors, are Schools and Hospitals in Urban/Rural areas, and, Diagnostic centres. In all these models, user charges can emanate from ordinary users, and, as support (in the form of voucher payments) from the sponsoring agencies in lieu of categories (e.g., BPL households) that are otherwise exempt from the user fee obligation. The VGF, either as an upfront capital grant, or, as deferred payments, can be employed to

- enhance viability and enable private sector participation in provision of the basic services.
- iv. Extant VGF Scheme: It was noted that the existing VGF Scheme provided an established, funded and operational mechanism for projects to qualify for grant purposes. In the proposed sectors also, the same process and parameters, as applicable for core infrastructure sectors, would be applied.
- v. Feedback from consultative process: In compliance to the directions of the 10th EC, feedback consultation with various Central Ministries and other Agencies was conducted by DEA. There was wide support for applying the VGF scheme to structure PPP project, on a viable and sustainable basis, in social sectors. It was noted that, first, PPPs are part of the solution, but, a multi-faceted approach by government is required to address the deeper issue of the shortage of education and health professionals in India; secondly, the models recommended for PPPs in the social sectors range from simple management outsource arrangements to full education or health delivery arrangements; and, finally, that VGF is not proposed for all PPP projects in the social sector, but only for those PPP models and projects where it will enhance the project's economic viability and enable delivery.
- vi. Finally, it was concluded that social sectors can be categorised as infrastructure. It was observed that these sectors are amenable to PPPs, in respect of such models, which require upfront investment to make them viable. Alternative support schemes, however, may also be required for projects that cannot be covered under this Scheme. Extending provision of VGF for projects (Central Ministries' and States') that are adjudged as conforming to the Scheme was possible. It was reiterated that it is inadvisable to disregard the potential of an established, funded and operational mechanism of providing support to projects which are at an advanced stage of preparation, in anticipation of an ideal solution which may emerge only in course of time. Hence, it was posed to EC for consideration to include these sectors as eligible for VGF support.

5. Additionally, Joint Secretary, DEA updated that a letter from Joint Secretary, Ministry of Health and Family Welfare has been received, stating the inability of the representatives of the Ministry to attend the meeting, and extending support to include the Health sector under the extant VGF Scheme. The EC noted the aforementioned.

6. The Chair sought clarifications on two counts: first, whether only specific activities under Education and Health Sectors were proposed to be included as sub sectors or the sector as a whole was being envisaged for inclusion; and, secondly, whether only VGF support was being considered or support through recurring annuities was also contemplated. In response to the above queries, JS, DEA, clarified that the approval being sought was for the umbrella sectors (i.e. Education, Health, and, Skill Developments), in a similar manner to a sector such as Urban Infrastructure, which subsumed a wide categories of sub-sectors, e.g., water supply, sanitation and solid waste management, among others. However, EC could consider specific sub-sectors also, e.g., rural and urban schools and hospitals, diagnostic centres, ITIs and skill development centres and so on. Further, it was clarified that no annuity was being considered, and in accordance with the present Scheme, only VGF upto 40% of Total Project Cost (TPC) as capital grant is contemplated with provision of upto 20% of TPC to be sourced from the Government of India. The VGF could, within this limit, be disbursed either as an upfront capital grant or as deferred payments for operation and maintenance (O&M) support.

7. Secretary, Planning Commission noted that support to social sectors was essential. It was observed that the Hon'ble Prime Minister had announced the establishment of 1,500 Industrial Training Institutes (ITIs) and 50,000 Skill Development Centres (SDCs) on PPP basis, on the occasion of Independence Day in 2007. It was indicated that much time has been lost in discussions and concrete progress had not been witnessed so far on this count. Further, it was observed that a framework for this development is being evolved in the Ministry of Labour & Employment (MoLE), which, according to preliminary reports, is structured using VGF support. This was confirmed by Secretary, MoLE and Director General for Employment and Training (DGET). Advisor to Deputy Chairman intervened to suggest that VGF support for subject project(s) could be provided through the Ministry's budget, on a standalone basis. However, Secretary, Planning Commission was of the view that a new scheme may not be required if the purpose could be met by using the existing dispensation; besides, a new scheme would entail additional work relating to fund management and outcome monitoring. She further mentioned that services such as research facilities, institutes of higher and technical learning etc, that require specialised expertise and can be structured on whole/part user charge basis, can also benefit from viability gap funding support. The exact contours of the PPP model were sought from the representatives of MoLE.

8. Secretary, MoLE explained that the ITIs/SDCs were proposed as Greenfield projects on VGF basis and annuity was not being considered as a support mechanism. The proposed Scheme was being contemplated for the projects, with upto 40% capital grant. It was also mentioned that not all projects under social sector may be commercially viable and hence a mix of VGF and annuity may need to be considered. DGET/Joint Secretary, MoLE added that the SDC component for initial development was reduced from 50,000 to 5,000 based on Planning Commission's guidance.

9. Secretary, Expenditure noted that Education and Health Sectors can be included under the extant VGF Scheme. It was observed that the existing Scheme allows sufficient flexibility for addition/deletion of sectors. Projects being taken up on PPP mode in the social sectors should be based on VGF and not on annuity support. Apropos reservations raised on the record of discussion (RoD) of the last meeting of the EC, it was observed that the Department of Expenditure does not feel the need for any changes therein.

10. Adviser to Deputy Chairman, Planning Commission welcomed the structuring of projects in the Education and Health sectors on a PPP format. However, the extension of the extant Scheme for this purpose was contested strongly, on account of the following reasons:

- i. VGF Scheme provides for support to PPP projects in infrastructure sectors, in order to make them commercially viable. Hence, the scheme could not be applied to sectors such as education and health, which are not infrastructure sectors, and, where commercial viability through capital grants alone is not feasible.
- 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 education sector.
- iii. Fees, charged from students or patients cannot be categorized as 'User charges'.
- iv. Social sectors are complex sectors and the level and structure of grant may differ, both in quantum and periodicity, from what is envisaged under the Scheme. Moreover, the current Scheme cannot cater for bulk provisioning in the social sectors.

11. Advisor to Deputy Chairman again emphasized that Planning Commission was in the process of preparing a new scheme for supporting PPPs

in the social sector, which addresses the aforesaid issues. Thus, he argued against extension of the existing Scheme to these sectors by the EC. It was proposed that models prepared to demonstrate the utility of the extant Scheme to these sectors may be brought before the EC. He stated that if the existing Scheme is proposed to be modified to include these sectors within its ambit, the decision should be posed to the appropriate Committee of Cabinet.

12. Representative of the Ministry of Human Resources, Department of Higher Education stated that as VGF is offering a solution for their development initiatives and has the potential to supplement their efforts in this regard, they would support the inclusion of social sectors in the extant VGF Scheme.

13. Representative from the Navodaya Vidyalaya Samiti (NVS) mentioned that their department was already developing projects on PPP basis. It was indicated that the model adopted shall be for a concession period of 15 years and is limited to construction and maintenance; operations (including provision of teachers) part shall be taken care by the department. This was in consideration of the fact that initial funding was a problem, and, also in order to avoid cost delays and time overruns during construction. Thus, they would also support the inclusion of social sectors in the extant VGF Scheme as it catered to their need of initial grant requirements.

14. Chairman of the Empowered Committee summarized the discussion and decided as under:

- i. PPPs in social sectors are necessary and desirable.
- ii. The applicability of the extant VGF Scheme was most relevant to certain areas of social sectors.
- iii. Social sectors, such as education, health and skill development maybe included in the extant Scheme, without annuity provision.
- iv. The above recommendation may be posed to the Finance Minister for approval and appropriate Committee of Cabinet for concurrence.
- v. Planning Commission may provide their comments on this issue during the inter-ministerial consultations at the draft Cabinet note stage.

(Action: DEA)

15. The meeting ended with vote of thanks to the Chair.