

**Inaugural Speech by  
Hon'ble Finance Minister, Shri P. Chidambaram  
at the Conference of State Secretaries on infrastructure**

My distinguished friends and colleagues, the Deputy Chairman of the Planning Commission, Shri Ahluwalia, Mr Hoda, Member, Planning Commission, Shri Rajeev Ratna Shah, Member, Secretary Planning Commission, Shri Haldea, Chief Secretaries, Senior Officers of the State Governments, Senior Officers of the Government of India, distinguished speakers and friends.

The NDC adopted a resolution and I think it would be appropriate to begin by quoting that part in full-

“Recognizing that improvement in physical infrastructure has also emerged as a common priority, an increased private participation has now become a necessity to mobilize the resources needed to achieve its expansion and upgradation. The NDC observed that successful promotion of private participation in infrastructure requires a well-designed framework of policies in which investors have the assurance that standards of services will be maintained and concession will be transparently awarded, and directed the Central Government to work towards evolving such a framework, which could be adopted by the States.”

I think this short paragraph says a number of things.

There is a clear infrastructure gap in this country. The figures are well known. The rates of investment in infrastructure in India are low compared with China and some Asian countries. The India Infrastructure Report prepared in 1996 had projected the need for an increase in investment in infrastructure from levels of under 5 percent to about 8 percent of GDP by 2005-06. However Gross Capital Formation in infrastructure as a proportion of GDP has remained around 4 percent of GDP during 1997-98 up to 2003-04. One of the reasons is that the denominator is growing faster than the numerator. The total investment required in infrastructure during the 10th Five Year Plan was initially projected at Rs 10,89,400 crore at 2001-02 prices, which was revised to Rs 11,08,800 crore in the mid-term review document. The Committee on Infrastructure,

whose website I was happy to inaugurate a few minutes ago, headed by the Prime Minister, has estimated the investment requirement at Rs 2, 20, 000 crore in the highway sector by 2012, Rs 40, 000 crore for airports by 2010 and Rs 50, 000 crore for the ports by 2012. It is also been estimated that India has a potential to absorb US \$ 150 billion of investment in the next few years in the infrastructure sector alone. And obviously these kind of funds cannot be found from budgetary resources. One has to reach out to the private sector, and private savings, and to the other mechanisms available in the market today to raise funds to fund such an ambitious infrastructure project. It has also been estimated that the infrastructure gap is costing India between 1.5 and 2 percent of GDP growth every year.

In the last two years the Committee on Infrastructure serviced by the Planning Commission has done a great deal of work. The results of that work are visible and I will presently refer to some of them, but I think the time has now come to take the message to all the States and to encourage States to adopt the PPP model. Some are already doing it very successfully and I shall presently refer to some of those successful cases too. But I think the time has come for us now to work together to make this model a success.

The second idea in the NDC resolution is that there must be a well-designed framework of policies. While policies can be evolved over a period of time, we cannot have a revolving door policy. As governments come in and governments go out, we cannot have policies come in and policies go out. There has to be a certain stability about policies. Here I believe the Committee on Infrastructure and the Planning Commission can guide States and today's deliberations will help in that behalf that the policy design must be clear, efficient and must impart some stability to that sector.

The third idea is that investors will come in not because there is a well-designed policy but because there is an assurance that there will be transparency. From bidding to tax concessions - at every stage there must be complete transparency. Projects which have succeeded, are projects which have exhibited a remarkable degree of transparency, consultation, involvement and periodic monitoring. Projects which have failed, are projects which are designed in secret and implemented without consultation. And finally, the PPP model itself will succeed only if there is an assurance that standards of services

will be maintained. There is no point in building a world-class road if after few years it deteriorates into one of the earlier Indian roads. There is no point in building a world class water supply system if it is not maintained and not improved, keeping in pace with the growing demands of the people for whom the system is being designed.

Now the happy experience is that major initiatives have been taken in ports, roads, railways, power and civil aviation sectors. For example, it has been decided that all projects under the NHDP will be done through the PPP mode. The EPC mode or the Works Contract mode will be resorted to only under exceptional circumstances.

The report on the suggested financing pattern for NHDP and for non-metro airports has been finalized by the Inter-Ministerial Groups. In the railway sector, number of projects are being funded by Public-Private Partnership, the Rail Vikas Nigam Ltd. has been entrusted with the task of promoting PPP for railway projects. Government has also decided to set up dedicated freight corridors, on Delhi-Howrah and Delhi-Mumbai routes. These projects are, I am informed, likely to be financed largely through PPP.

Greenfield airports of Devanahalli near Bangalore and Shamshabad near Hyderabad are being built on the B-O-O-T basis with Private-Public Partnership. International airports in Delhi and Mumbai are being restructured and modernized through PPP. I am told and I take support from the Minister's statement this morning that the Kolkata and Chennai airports will be developed on similar lines after consulting with the respective state governments. At least five other cities have been identified for development of greenfield airports.

In the States, too, there have been outstanding examples of successfully working PPP models. For instance the Tirupur project in Tamil Nadu, one of the first in this direction, deserves to be mentioned specially. West Bengal has recorded significant success in housing and health sectors. For example, the housing projects that are coming up in the outskirts of Kolkata city are a very fine example of what a PPP model can deliver in terms of quality housing and quality living conditions to the lower middle class as well as the middle class. Gujarat is another State, which has recorded outstanding success especially in ports and in urban infrastructure. Maharashtra has also recorded significant

success in the ports and in the roads sector. Karnataka deserves to be mentioned for its excellent work in airport and I mentioned this a little while ago, power and in the road sector. Punjab for its work in the road sector and so on and so forth. Other states have also made a beginning, but in my **charter** , I am sorry to point out that there are huge gaps against many states. The idea of this Seminar - a one-day get together - exchange of ideas is to encourage all States to join in and learn from experiences of each other and to make this a success.

Although there is interest in the private sector to invest in infrastructure, the requirement of long tenure debt, I conceive, remains a constraint. Commercial viability has also been a problem as total recovery of cost through levy of user fees is not possible in many cases due to the moral obligation of the Government to ensure provision of services at reasonable cost and also in some cases due to the non-excludable nature of the services of public provided. Although institutions like the IDFC cater to the long-term debt needs and equity of infrastructure projects the demand for grants is too large to be covered by a single institution or few such institutions. With a view to bridging these gaps in the infrastructure projects and to accelerate increase in the PPP, two major initiatives have been taken by the Central Government in the Ministry of Finance. These are - the **Viability Gap Funding Scheme** and setting up of **Indian Infrastructure Finance Corporation**. We have received proposals on the Viability Gap Scheme but I would be happy if we can accelerate the examination of these proposals. In principle approval has been granted in some cases but the states must quicken the process of reaching financial closure so that the final approval and the funding can be provided.

As far as the India Infrastructure Finance Corporation Ltd. is concerned the newly appointed Chairman is here. Perhaps he may speak to you later in the day. He has written to all states inviting proposals, which can be funded by the IIFC. While we have indicated a sum of Rs. 10,000 cr in the first year there is really no limit as such. If there are bankable projects that can be funded and which require long-term debt, I assure you IIFC will raise funds in the strength of the Government's guarantee and will lend such funds to these projects.

I would urge States to take the initiative in encouraging PPPs in many more sectors. Among the sectors are areas, which are key to improving Urban

Infrastructure, and I wish to emphasize that improving Urban infrastructure is extremely important to sustain our reforms. Within urban infrastructure, I would include urban roads, solid waste management, mass rapid transit systems, urban water supply, power, agriculture market terminals, and tourism infrastructure. The Jawaharlal Nehru National Urban Renewal Mission has provided a large amount of money to support renewal of urban infrastructure. Budgetary allocation in infrastructure could be leveraged to attract private funds while also making full use of viability gap funding and availability of long tenure debt from the IIFC.

Some states have already promoted PPPs in a number of sectors; however, greater involvement of the States in the PPPs will go a long way in ensuring efficient provision of good quality infrastructure and good quality services to people at affordable prices. I have directed the officials of the Ministry of Finance and I have requested the chairman of IIFC to fully engage with the state governments in providing assistance in capacity building in developing PPP projects and am confident states will benefit from this initiative. I am extremely happy that the Planning commission and the Committee of Infrastructure have called this meeting. I sincerely hope that all of you who are here representing states, the Chief Secretaries and other senior officers, will go back with a better understanding of what we intend to achieve by the PPP model and sensitize your governments to the need to accelerate projects under the PPP model.

Thank You and I wish your deliberation a success.