

**March 2011**

PPIAF'S WORK IN SOUTH ASIA

Since inception PPIAF and its Sub-National Technical Assistance (SNTA) program have provided \$20,477,824 in funding to 114 activities in the South Asia Region, representing 10% of PPIAF's total portfolio, including SNTA. India dominates the South Asia portfolio with 53 activities worth \$8,843,541 approved since inception. The next most frequent recipient of PPIAF funding has been Pakistan with 12 activities, followed by Nepal and Sri Lanka with 7 each. Multi-sector activities represent 44% or \$9,018,068 of PPIAF's portfolio in the region, followed by 21% in water and 13% in energy. This South Asia total also incorporates \$1,627,850 in funding to six SNTA activities since the start of that program in 2007. All of these activities have been in India except for a recent activity approved in Nepal.

In recent months, PPIAF has approved four activities in India, one in Maldives, one in Nepal, and a regional workshop on building awareness and strengthening capacity for PPPs in the South Asia region.

PPIAF has continued to support the development of strong PPP policies, programs, and pipelines across South Asia. In India, this has included activities at the national level, covering major policy, regulatory, and high-level sectoral issues. In FY11, PPIAF approved an activity with the Department of Economic Affairs, Ministry of Finance, to help it review and analyze the proposed regulatory framework for Indian seaports, airports, and air navigation services. The Indian economy has been transformed in recent years from a highly regulated economy to one in which productivity and performance are of prime importance. Differentiated regulatory mechanisms have evolved in the country to address the needs of the different infrastructure sectors in the context of the prevailing market structure and policy perspective. This diversity has brought regulatory challenges and also thrown up issues of design and effectiveness. The PPIAF activity is reviewing and analyzing new draft legislation and regulations for seaports and airports to ensure these are consistent with international best practice, appropriately adapted to Indian operational realities, and directed towards ensuring efficient, competitive, and economical operation of their respective sectors.

PPIAF has also been supporting a number of sector- and project-specific activities that have been in support of specific infrastructure initiatives. In recent times this has included an activity with Delhi Jal Board to examine PPP options for waste water management, and transaction assistance support for selection of a distribution franchisee for Haryana power distribution.

At the same time PPIAF is looking to rebalance its South Asia portfolio to support the development of PPPs elsewhere in the region. PPIAF has supported a recent series of PPP workshops in Sri Lanka, Bhutan, Nepal, and Bangladesh. This has involved PPIAF, The World Bank, IFC, and World Bank Institute engaging with key government counterparts around the policies and strategies to develop and implement effective PPP pipelines. In the Maldives, a PPIAF activity is developing a communication program and strategy in support of a pilot solid waste management PPP project in Malé and the three surrounding islands. The program and strategy will ensure that all key stakeholders have access to clear, accurate, and comprehensive information about the pilot PPP and are appropriately consulted on major aspects of the project. The private concessionaire will be responsible for providing integrated waste management services (collection, transportation, segregation, processing, and sanitary disposal) in these selected islands.

India: Facilitating Private Financing and Domestic Borrowing for the Roads Sector in Karnataka—PPIAF Funding: \$440,000

Background: The government of Karnataka has identified about 25,000 km of the most important traffic corridors and designated them as the state's core road network. Accelerating the development of this network is critical at a time when road development in Karnataka is lagging behind the state's economic growth and does not adequately meet either the current or the projected transport demand. Around 39% of the core road network requires improvement to bring it into good or fair condition while at the same time vehicular traffic in the state has been rapidly growing at the rate of 10% to 15% per year in the last decade. Karnataka also accounts for 10% of the total road accident cases in India, with the number of fatalities increasing by 55% since 2000 to reach a rate of 140 per 100,000 vehicles in 2009 compared with rates like 9 per 100,000 in the UK, 15 in USA, and 70 in Brazil and China. The high fatality rate in Karnataka is attributed to a lack of effective road safety management and enforcement systems.



PPIAF's Contribution: A recently completed PPIAF SNTA activity supported the government of Karnataka to examine its options for accessing additional financing from the private sector and local financial institutions to develop roads and meet the large financing gap for improving Karnataka's road network. This financing and local funding would leverage off a recently approved World Bank loan for \$350 million.

The recommendations for the government of Karnataka included (i) attracting private sector investment for high-traffic roads; (ii) developing different PPP structures (such as annuity payment concessions) that are more suited for low-traffic state highways; (iii) introducing market borrowing from domestic financial institutions and capital markets; (iv) introducing additional road user charges, and securitizing these revenues for servicing domestic debt and supporting PPP concessions; and (v) channeling some of the toll and other transport charges into a dedicated road fund.

Nepal: Preparation of Market-Oriented Business Plan for the Town Development Fund—SNTA Funding: \$75,000

Background: Nepal has one of the highest urban population growth rates in South Asia, estimated at over 6% per annum in the early part of this decade. The urban economy operates under severe constraints: rapid urbanization has led to haphazard growth that both fails to maximize the benefits of agglomeration and generates negative externalities. As urban growth continues unabated, the key challenge going forward for Nepal is that of maximizing the economic opportunities offered by urbanization and agglomeration. The Town



Development Fund (TDF) in Nepal has been playing a critical role over the last 20 years in supporting development of municipal infrastructure by channeling grants and soft or regular loans to municipalities. However, the municipalities in Nepal are still suffering from very major infrastructure gaps, which in the future will require their accessing a wide range of funding, including from the private sector (through capital markets and PPPs) for sustainable infrastructure and services. The government sees a reshaped TDF as a key player in financing regional and local development through a gradual move towards market-based financing. To achieve this, the TDF needs to be transformed into a real market-based financial intermediary to develop its capacity to tap capital markets and also to facilitate PPPs.

PPIAF's Contribution: As part of its SNTA program, an activity was implemented in October 2010 to support the development of a long-term business plan for the TDF and an immediate institutional development program or road map to enhance the TDF's capacity in assisting Nepali municipalities more effectively access loans and promote well developed PPPs in order to expand the infrastructure in Nepali cities.

The activity is well advanced and many of the key outputs have been finalized in consultation with the TDF and the government. Already the World Bank and other donors are in advanced stages of preparation for planned funding to the TDF for implementation of the proposed restructuring and also as an investment in the TDF so that it can raise private capital.

PPIAF ACTIVITIES APPROVED IN RECENT MONTHS

- **India:** Transaction Assistance Support for Selection of Distribution Franchisee for Haryana Power Distribution Utilities, approved February 15, 2011, **\$75,000**
- **India:** PPP Options Study for Waste Water Management in Delhi Jal Board (DJB), approved August 4, 2010, **\$73,390**
- **India:** Review and Analysis of the Proposed Regulatory Framework for the Ports and Airports Sectors in India, approved August 04, 2010, **\$65,000**
- **India:** Support for Assessment of Public and Private Investment in Infrastructure During the Financial Crisis, approved July 27, 2010, **\$47,950**
- **Maldives:** Communication Program for Solid Waste Management PPP, approved October 13, 2010, **\$50,000**
- **Nepal (SNTA):** Preparation of Market-Oriented Business Plan for the Town Development Fund in Nepal, approved October 13, 2010, **\$75,000**
- **South Asia:** Leveraging Public-Private Partnerships (PPP) for Development – Workshops on Building Awareness and Strengthening Capacity for PPPs in South Asia, approved December 10, 2010, **\$74,300**

PPIAF has activities in: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka