सत्यमेव जयते

Ministry of Urban Development
Government of India

PPP and Procurement Training Workshop for Top 33 Smart Cities

Public Private Partnerships

Management and Governance

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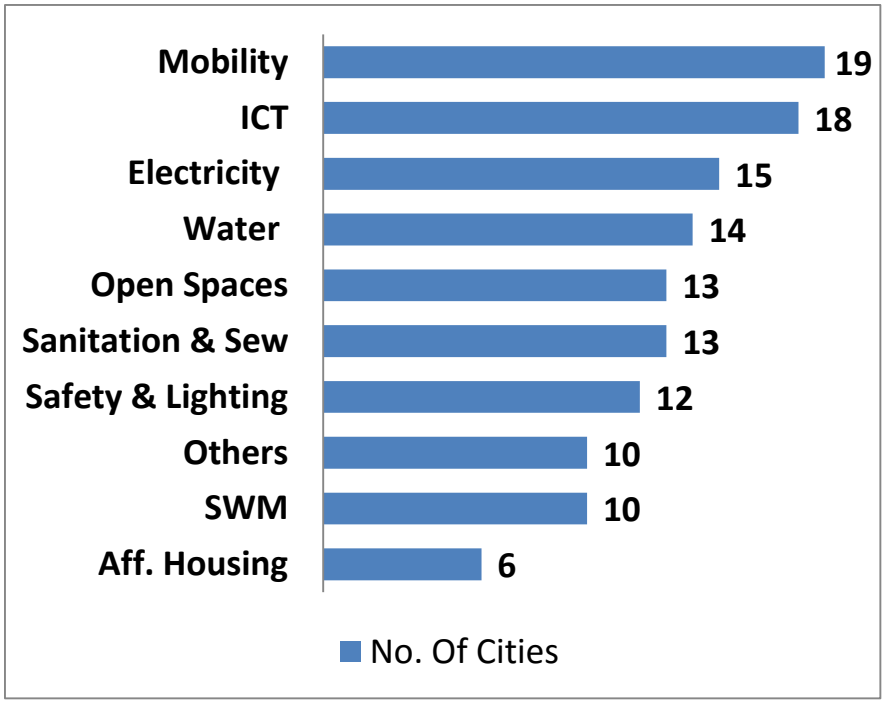
Key takeaways

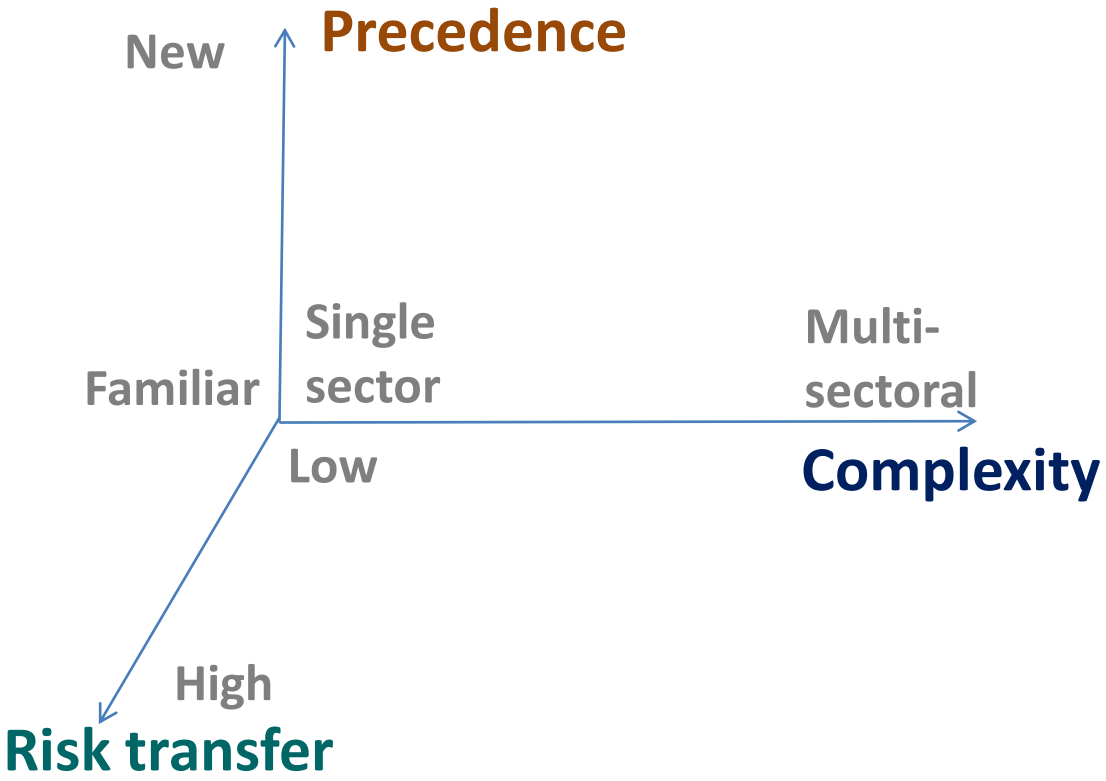
1. Build clarity on PPP portfolio / objectives
2. Adopt a Balanced approach to setting performance standards and risk allocation
3. Bankable contracts + policy enablers critical
4. ULBs require building a new set of capacities
5. Engaging stakeholders effectively is central to successful PPPs

SCPs reflect heterogeneity in PPPs

- 20 SCPs envisage private investment worth Rs. 8000 crore
- PPPs / Private investment envisaged in new/emerging areas
  - ICT, Mobility, Energy efficiency etc.
- Some SCPs short on projectisation; discuss only the possibilities considered and financing targeted



A framework to classify PPPs



As we move outward on these dimensions, effort and competence needed to structure PPPs increases

Validate rationale; recognise limitations

- Private sector obligations
  1. Capabilities/Technology
  2. Efficiency
  3. Capital (not in all cases !!)
- Public sector obligations
  1. Policy clarity
  2. Political will /commitment
  3. Stakeholder buy-in; Social equity

- PPPs work better when there is
  - Clarity on outcomes and performance standards
  - Capable bidder eco-system
  - Clear Revenue models, identified viability gaps
  - Balanced risk sharing
  - Stable policy regime and political support

Setting performance standards

- Pitfalls to be avoided
  - Over-stringent performance standards
  - Excessive list of indicators for levy of penalties
  - Non-specification of modalities for measurement/tracking

- Good practices
  - Penalties for ‘must-do’ performance targets only
  - Bonuses for difficult ‘good-to-have indicators
  - Independent ‘non-manual’ tracking, where possible

Prioritize ‘high impact’ parameters to track/penalize

Water supply – Mysore vs. Nagpur

- Mysore
  - 6 year contract
  - Termination if the cost of project exceeded original BoQ by 10%
  - Penalties from 18 months against targets set every quarter
  - 30% weightage for 24x7 supply

- **Large variations vis-à-vis BOQ**
- **Stringent performance stds couldn't get met.**
- **City wide rollout couldn't be achieved**

- Nagpur
  - 25 year concession/ 5-year construction
  - Minimum volume guarantee for 5 years post which operator paid based on actual metered billed volume
  - Penalties from year 5 for (1) Raw water extraction and (2) energy consumption vis-à-vis norms and (3) collection efficiency.
  - Rate adjustment and Tariff rebasing
  - Escrow and payment security

- **Only 2 bids received**
- **Project in construction stage**

Principles underlying risk allocation

- PPPs with a high risk transfer have tended to fail
  - Passing demand / tariff uncertainties fraught with challenges
  - New areas (ICT–led projects) likely to see lower risk appetite
  - Global operators tend to be more risk averse
- Balanced risk allocation
  - Construction, technology, O&M – Private partner.
  - Demand/Tariff risk transfer need fall-back
    - Minimum guarantees, off-take commitments etc.
  - Investment risk transfer
    - Viability gaps? Revenue certainty? Risk appetite

Early stage Investor meets and risk appetite assessment critical for projects in newer unexplored areas

Contracting assurance..1

- Managing by Contract
  - Can possibly work for projects with low complexity with
    - Enabling State Government policy / project-level orders
    - Tripartite agreements reflecting obligations of State Governments
    - Comprehensiveness, balance and bankability
- Legal basis / policy enablers critical for wider PPP adoption
  - State-level PPP Legislation / Policy can be a useful enabler
  - Enablers/spoilers in municipal legislation
  - SPV's autonomy and rights to develop projects

Contracting assurance..2

- Critical elements in contract design
  - Scope and obligations of parties
  - Measurement of performance / compensation structure
  - Dealing with unforeseen events, changes in scope/law
  - Handling Events of Default, Termination and Compensation
  - Monitoring and Supervision hierarchy
  - Dispute Resolution
  - Step-in rights
  - Back-stopping role of State Government

Gearing organisationally..1

- SPV role and interface with ULB/State
  - Ideally, SPV should be empowered to handle project development, monitoring and financing for PPP projects
  - Should be able to access State/GoI support and guarantees
  - Empowered counter-party to enter into PPP contracts

- SPV skills / capabilities
  - Domain and sectoral expertise
  - PPP process and contractual capabilities

Gearing organisationally..2

- Contours of SPV structure
  - Qualified Independent Board
  - Relatively lean expert staffing with Full-time CEO
  - Full-time positions in key domain and functional areas
    - Urban planning, Water and Sanitation, Transport, Environment, Legal and Urban Finance
  - Fixed period hand-holding for non-recurrent activities
    - PMU or Contractual experts for non-recurring tasks
  - Wider committees / coordination mechanisms
    - State level, District-level, City-level
    - Citizen advisory forum

Monitoring and supervision

- Multi-tier monitoring and supervision structure
  - State, SPV, Local Body, Citizen forum
  - Should be enshrined in the Contract / Concession Agreements

- Broad base third party / Independent Engineer role
  - Not just checking specifications
  - Report on project outcomes
  - From ‘fault finder’ to a ‘reporting’ and ‘dispute resolution’ role

- Structured coordination mechanisms to engage users
  - E.g., ‘Water friends’ in Manila water PPP

Stakeholder engagement..1

- Criticality of effective stakeholder engagement
  - **Avert failure** by identifying sources of support/opposition
  - **Identify fault lines early on ,** improve project design and acceptability
  - Misperceptions can derail even well-structured PPPs
- Positive impacts of good communication
  - Water supply pilots in Karnataka - Use of NGO-led communication
  - Alandur Sewerage system – champion-led communication
  - NDPL Delhi - Early stage communication with employees

Stakeholder engagement..2

- During Project Development
  - Build a conducive environment
  - Map stakeholder needs/expectations
- During Project Award
  - Process integrity and Transparency; enabling a keen contest
  - Position Government as a credible partner, PPPs as an attractive investment
  - Project Bidders are focus; however, other stakeholders equally important
- During Project Implementation
  - Reinforce User level benefits and user interface
  - Facilitate Coordination; monitoring / reporting compliance

Surat waste-water reuse case..1

1. Water shortage as an impending threat
   - Dependence on River Tapi
   - Shortage as early as 2015
2. Significant Industrial water demand
   - Pandesara demand~100 MLD (~ 13% of total)
   - High TDS in ground water
   - SMC supply only 55 MLD; Remaining from tanker /other sources
3. Bamroli STP just 5 km from Pandesara
   - 100 MLD capacity Sewage Treatment Plant – 65% capacity utilisation

Recycling the Secondary Treated Water and supplying to Pandesara Industrial Estate emerged as a logical win-win project to look at

Surat waste-water reuse case..2

Structuring challenges

- Perceived revenue loss to SMC
- Willingness to pay
- Payment security
- End-to-End solution
- Transparent treatment for Change in Scope / Expansion

Balanced contract and risk allocation

- Supply complement SMC supply
- MOU with users prior to bidding
- 100% offtake commitment by SMC
- Scope of operator from treatment to supply
- Expansion of capacity for future demand built in
- Step-in rights for lenders and SMC

Surat waste-water reuse case..3

- Creating a buzz among the private developers was critical
  - Project leaflets / teasers > 20 operators
  - Bidder meeting in Surat – Sep 08 > 10 operators
  - Roadshow in Singapore – Dec 08 > 20 water companies
- Presentations to Mayor / Standing Committee and to GIDB
  - Mayor's interest and questions on benefits helped the process
  - Interactions with UDD GoG and Gujarat Infrastructure Development Board
- Pre-qualification / Bid documentation
  - Focus on balancing competition and capability –Encourage consortiums
  - Concession - Jyoti Sagar Associates India; review by Lovells Singapore and ADB

Fine-tuning Bid documents in discussion with SMC team for buy-in and capacity building

Surat waste-water reuse case..4

- Transparent and robust engagement with private sector
  - I Pre-Bid meeting in Jun 2009 > 22 operators (of which 9 global operators)
  - II Pre-Bid meeting in July 2009 > 15 operators
  - Participation from SMC and Industry association

- 5 Bids received
  - 3 bids had international partners particpating
  - Set a benchmark for tertiary treated recycled water pricing

Balancing bid process timelines and information comprehensiveness helped win bidders confidence

Key takeaways

1. Build clarity on PPP portfolio / objectives
2. A Balanced approach to setting performance standards and risk allocation
3. Policy enablers + bankable contracts
4. ULBs require building a new set of capacities
5. Engaging stakeholders effectively is central to successful PPPs

Thank you

Mysore

Table 5.1 (Ammended Chapter 3)		Break up of Performance based Management Fee											
Performance Fee Break up		End of the month from Preparatory Commencement Date											
Performance Targets	Weightage	6	12	18	24	30	36	42	48	54	60	66	72
Number of connections with 24x7	30%			1.15%	2.31%	2.31%	2.31%	3.46%	3.46%	0.00%	0.00%	0.00%	0.00%
Revenue Improvement	30%			1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Revenue Water in in 24x7 area	10%			0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Resolutions of Complaints on service in 24x7 area	10%			0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Resolution of Complaints in entire zone	5%	0.21%	0.21%	0.21%	0.21%	0.21%	0.21%	0.21%	0.21%	0.21%	0.21%	0.21%	0.21%
Leakage levels in 24x7 area	5%			0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%
Quality compliance in 24x7 area	5%			0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%
Pressure compliance in 24x7 area	5%			0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%

Table 5.2 (Ammended Chapter 3)		Break up of Performance based Operating Cost											
Performance Fee Break up		End of the month from Preparatory Commencement Date											
Performance Targets	Weightage	6	12	18	24	30	36	42	48	54	60	66	72
Number of connections with 24x7	30%			1.62%	3.23%	3.23%	3.23%	4.85%	4.85%	0.00%	0.00%	0.00%	0.00%
Revenue Improvement	30%			2.10%	2.10%	2.10%	2.10%	2.10%	2.10%	2.10%	2.10%	2.10%	2.10%
Revenue Water in in 24x7 area	10%			0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%
Resolutions of Complaints on service in 24x7 area	10%			0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%
Resolution of Complaints in entire zone	5%	0.29%	0.29%	0.29%	0.29%	0.29%	0.29%	0.29%	0.29%	0.29%	0.29%	0.29%	0.29%
Leakage levels in 24x7 area	5%			0.35%	0.35%	0.35%	0.35%	0.35%	0.35%	0.35%	0.35%	0.35%	0.35%
Quality compliance in 24x7 area	5%			0.35%	0.35%	0.35%	0.35%	0.35%	0.35%	0.35%	0.35%	0.35%	0.35%
Pressure compliance in 24x7 area	5%			0.35%	0.35%	0.35%	0.35%	0.35%	0.35%	0.35%	0.35%	0.35%	0.35%

Schedule 6 (Ammended Chapter 3)		Performance Targets											
Performance Fee Break up		End of the month from Preparatory Commencement Date											
Performance Targets	Unit	6	12	18	24	30	36	42	48	54	60	66	72
Number of connections with 24x7	Connections	0	0	5000	10000	10000	10000	15000	15000	100.00%	100.00%	100.00%	100.00%
Revenue Improvement	%			5.00%	5.00%	5.00%	5.00%	3.00%	3.00%	2.00%	2.00%	2.00%	2.00%
Revenue Water in in 24x7 area	%			85.00%	85.00%	85.00%	85.00%	85.00%	85.00%	85.00%	85.00%	85.00%	85.00%
Resolutions of Complaints on service in 24x7 area	%			95.00%	95.00%	95.00%	95.00%	95.00%	98.00%	98.00%	98.00%	98.00%	98.00%
Resolution of Complaints in entire zone	%	80.00%	85.00%	90.00%	95.00%	98.00%	98.00%	98.00%	98.00%	98.00%	98.00%	98.00%	98.00%
Leakage levels in 24x7 area	l/c/d/m			60	55	50	45	40	35	30	25	25	25
Quality compliance in 24x7 area	%			100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Pressure compliance in 24x7 area	%			95.00%	95.00%	95.00%	95.00%	95.00%	95.00%	95.00%	95.00%	95.00%	95.00%

Nagpur

Performance Indicator	Target as per Contract
Technical Aspects	
Treatment Efficiency (%) (Volume delivered/Volume produced)	97.5%
Water Quality	
Bacteriological conformity (%)	96%
Conformity to physical / chemical parameters (%)	95%
Quality of service	
Incidental interruption for repairs > 12 h (%)	100
Operational Efficiency (Volume billed/Volume supplied)	• 60% progressively by 60th month • Achieve 75% by 120th month, maintain
Bills based on metered consumption	100%
Financial	
On-time payment of NMC dues	100%
Collection Rate (Effective collection /billings)	• 75% progressively by 60th month • 98% by 120th month and maintain