Perspectives on PPP Design and Implementation in Water Sector in India

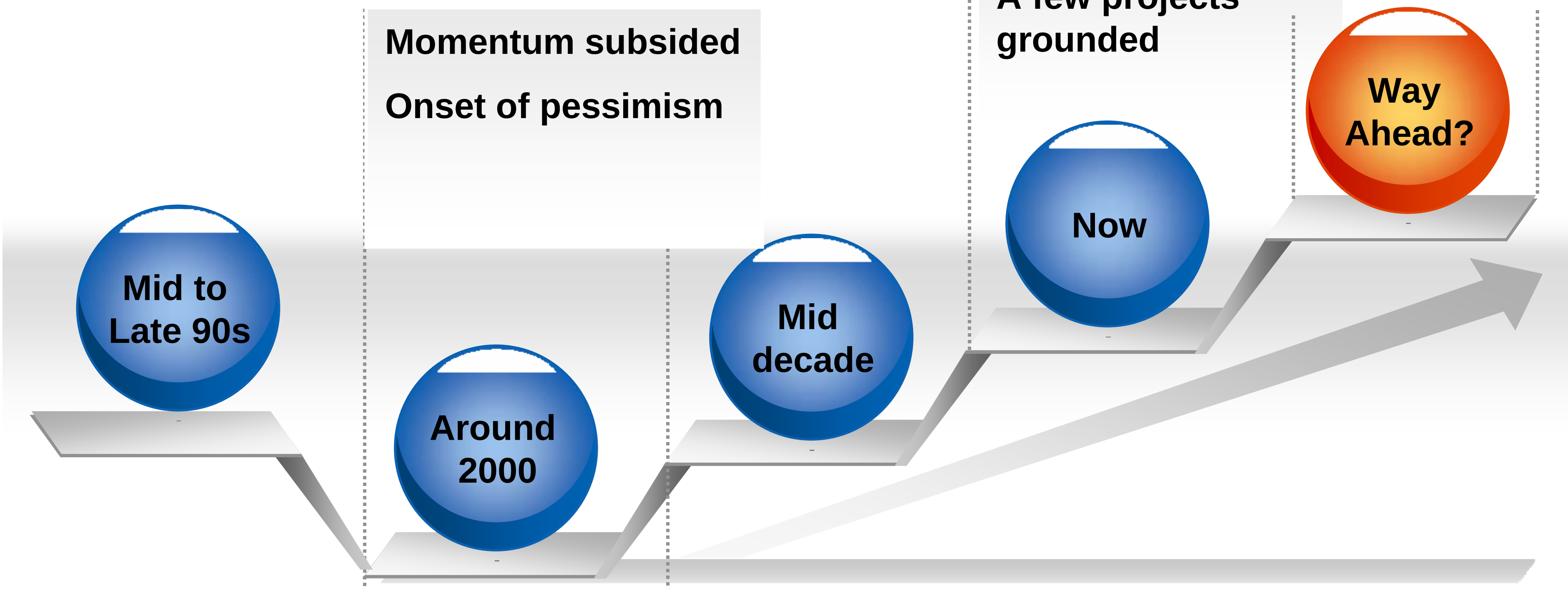
Event: Water in India, New Delhi

April 21, 2010

Agenda

- PPP Experience in Water Sector in India
  - **Phase wise Evolution**
  - **Analysis of project successes/ failures**
- What has possibly changed
- Key Enablers of Change
- Emerging Trends in PPP
- What may Accelerate the Momentum
- Private Sector Perspectives.

PPP timelines in water



First initiatives

High international interest

Poor results

Momentum subsided

Onset of pessimism

Efforts to prepare PPP projects

High NGO opposition

High profile projects run aground

Signs of success

A few projects grounded

Many ongoing initiatives

Waiting for first commercial results

PPP interest at tipping point

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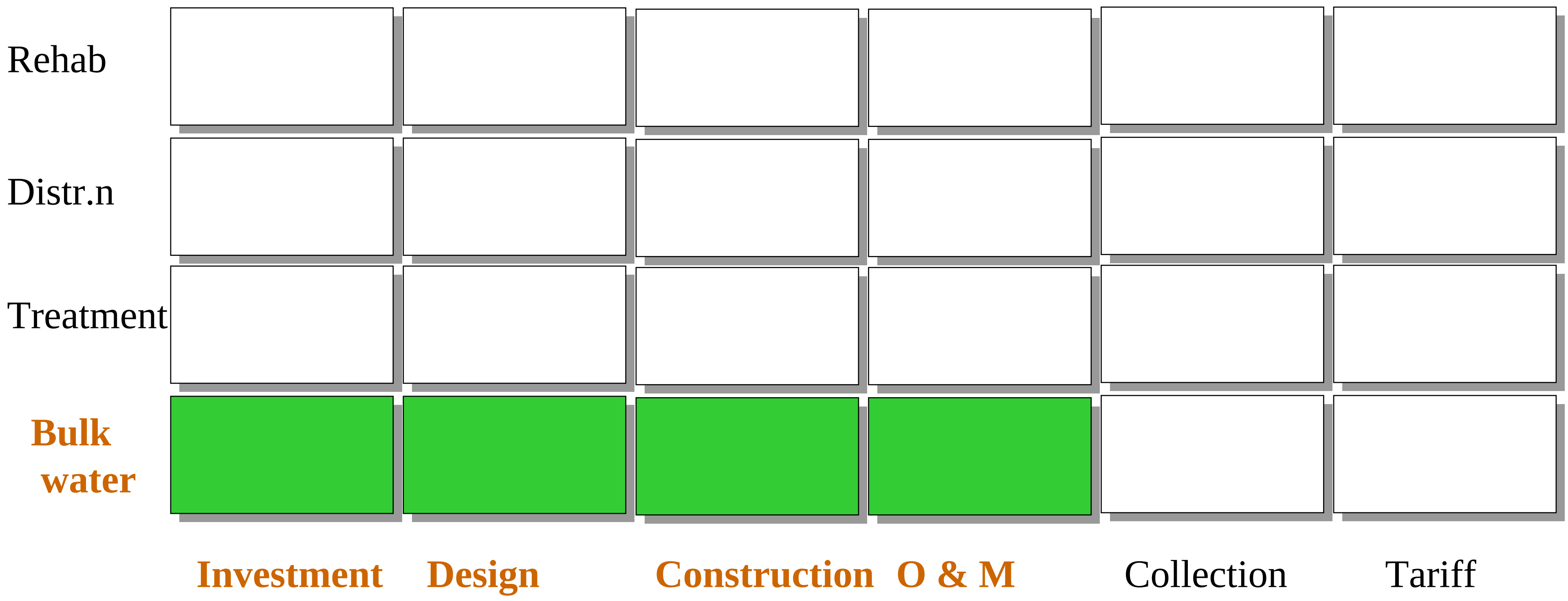
Mid 1990s, Failed projects

Quick Profile - Bangalore



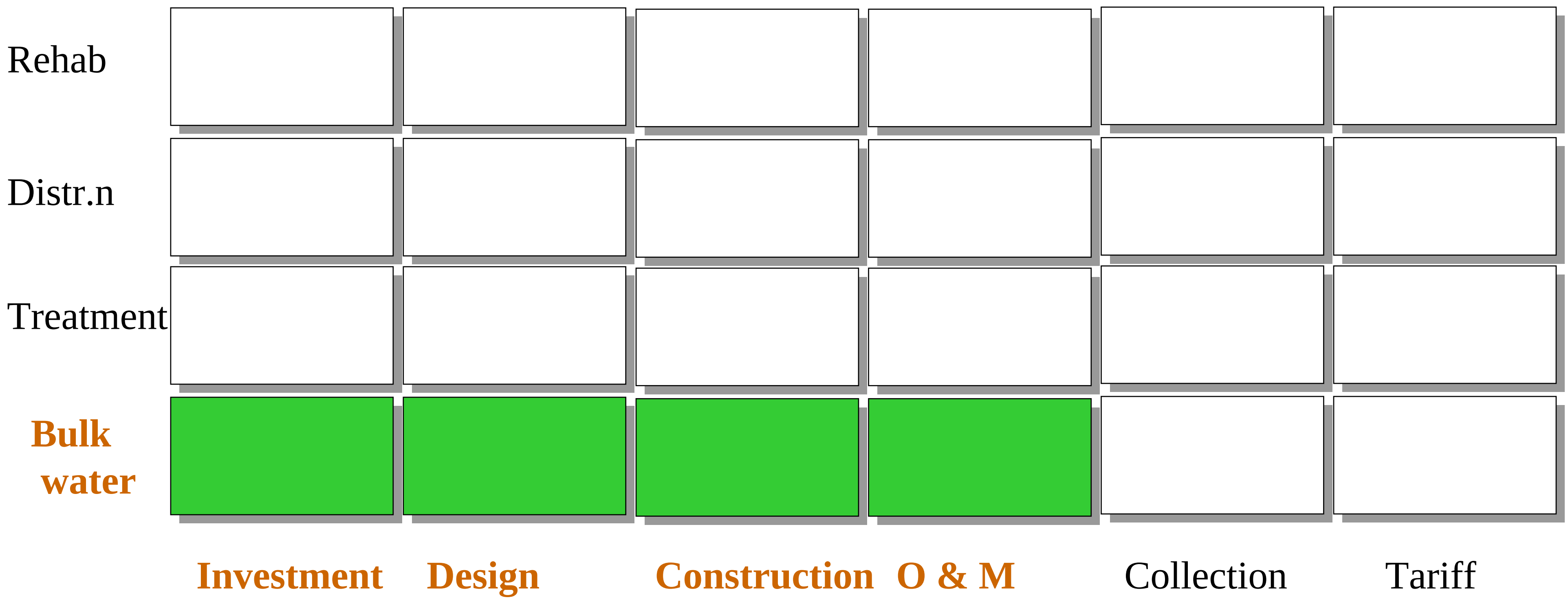
Status — Negotiations with Bi water abandoned

Key Factors

Bulk water tariff unaffordable

Project generated controversy

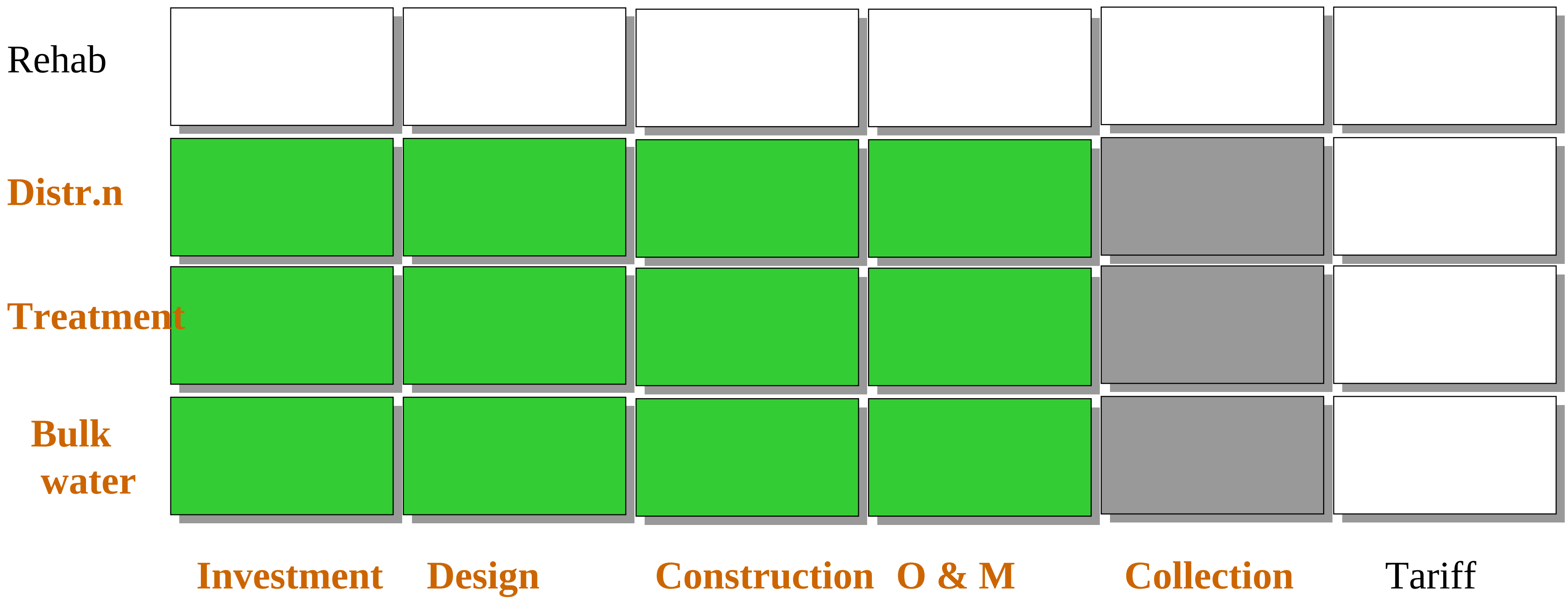
Quick Profile - Hyderabad



Status — Project abandoned

Key Factors
Bulk water tariff unaffordable
Credit quality of the water board

Quick Profile - Pune



Status	Project abandoned after some degree of preparation

Key Factors

High political opposition to the project

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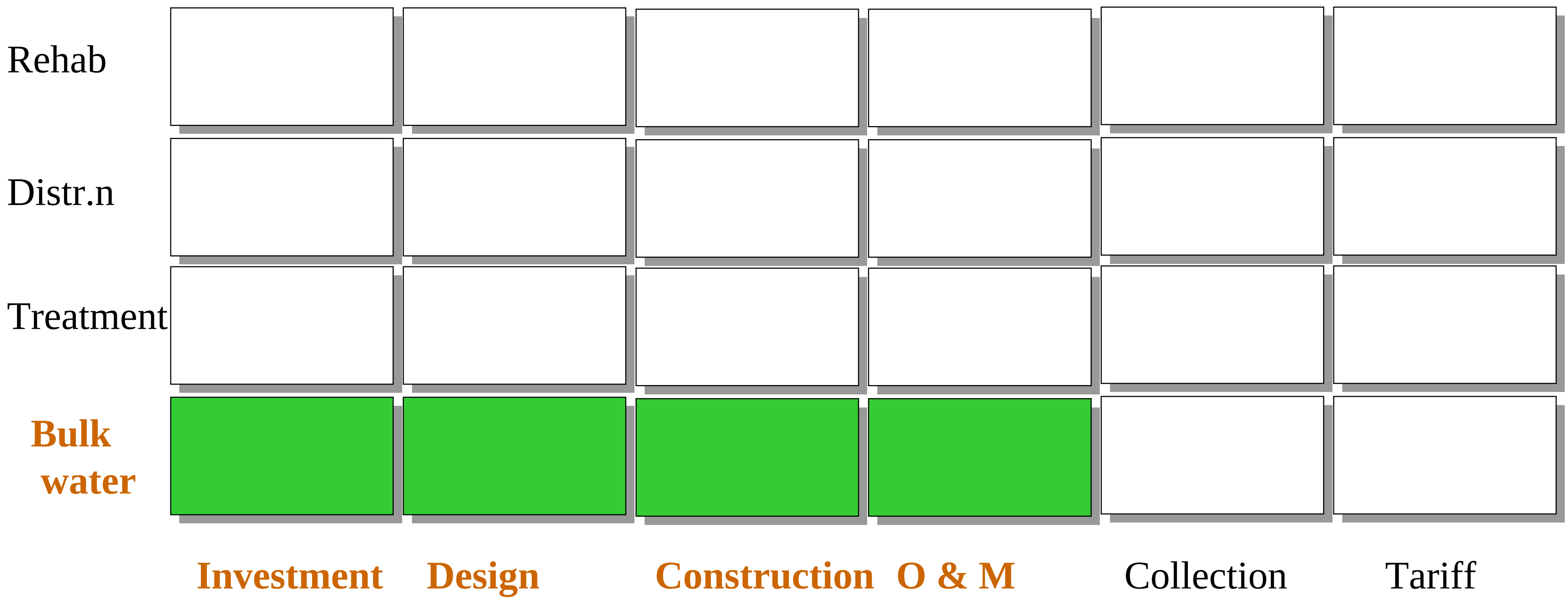
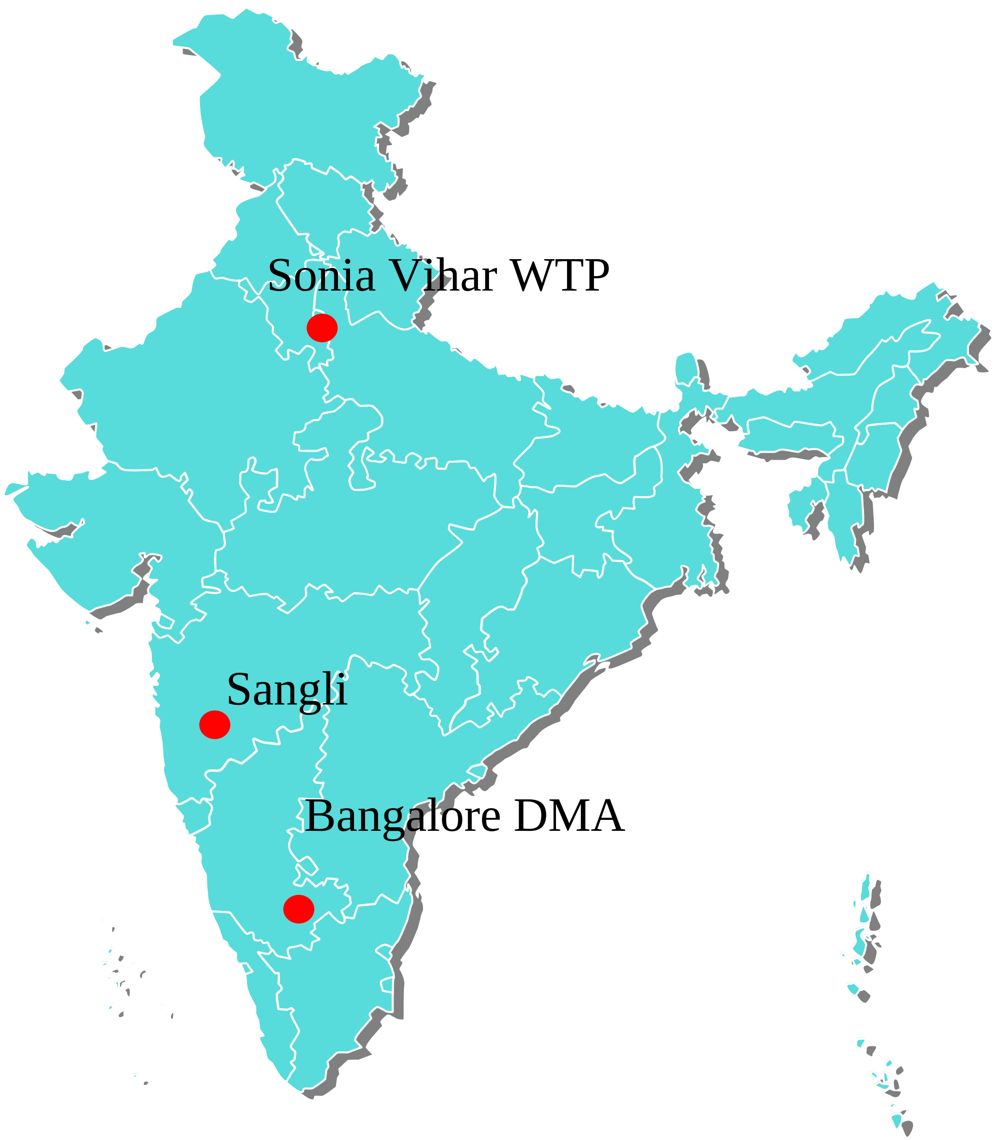
Quick Profile - Goa



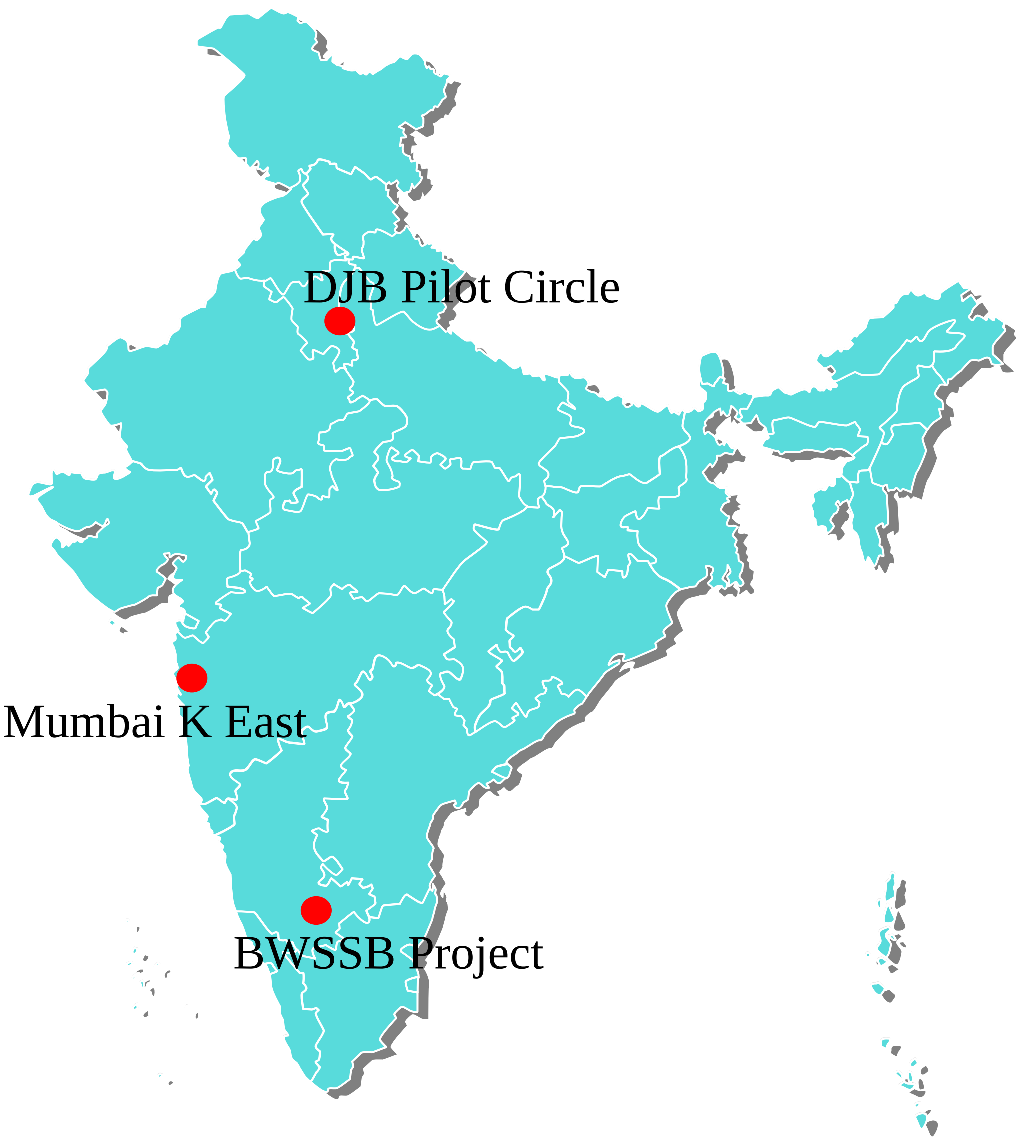
Status	Project abandoned after bidding

Key Factors
High bulk water tariff
Project need questioned

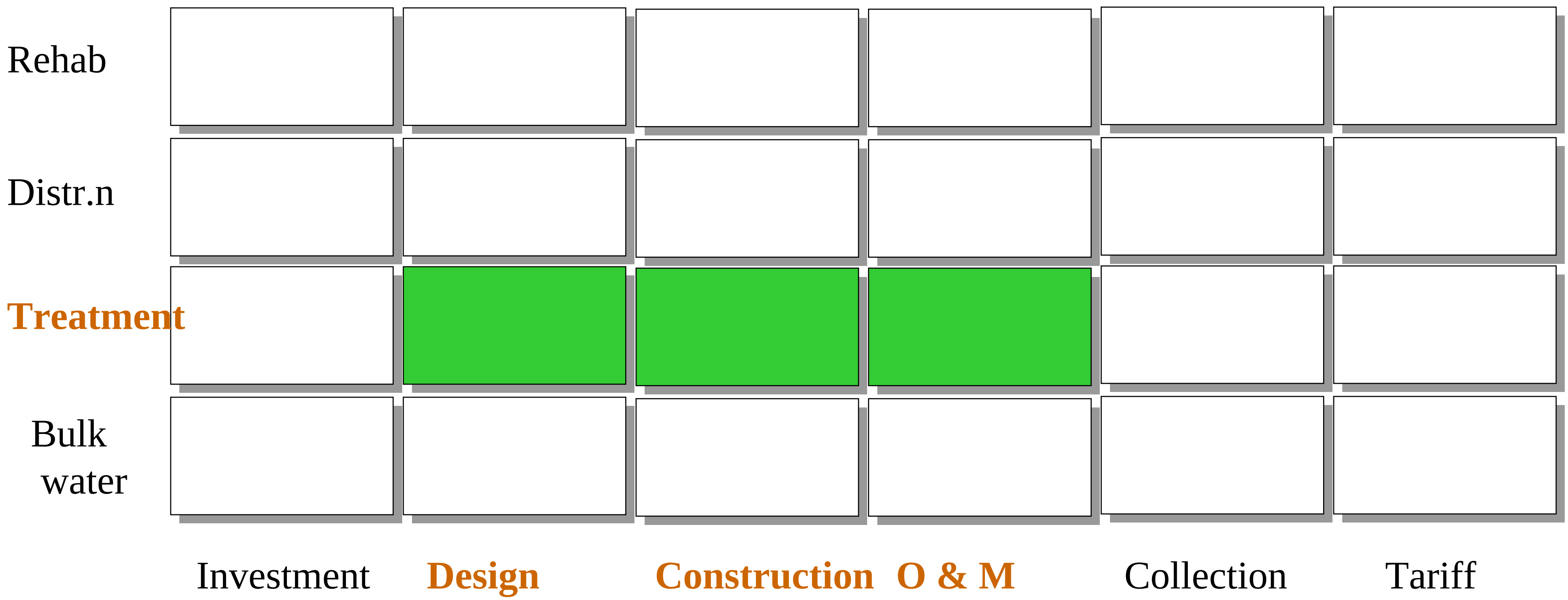
Around 2000, Momentum subsides



Mid decade, High profile projects run aground



Quick Profile - Sonia Vihar WTP



Status	Degremont was successful bidder, contract successfully awarded

Key Success Factors	Key Risks
Operator bears only technical risks	Risk of bulk water availability (rests with DJB)

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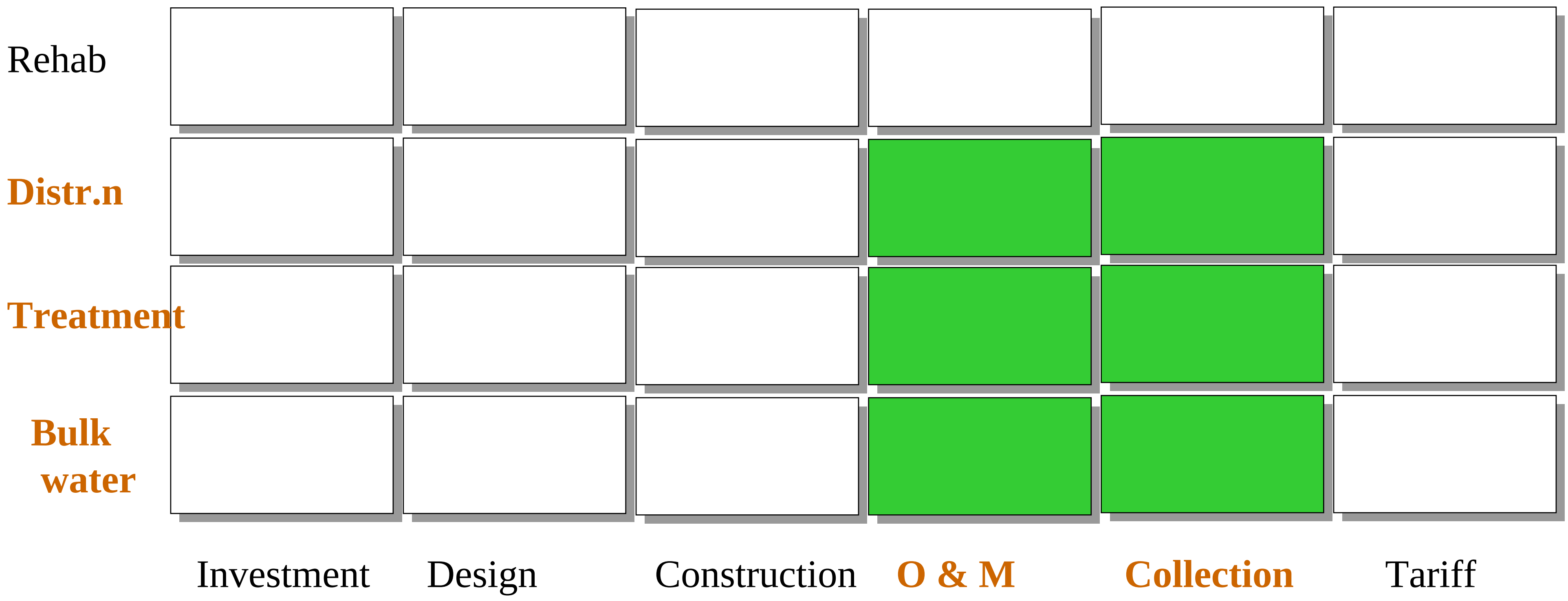
Quick Profile - Sangli



Status	Project abandoned after some level of preparation

Key Factors
Council decided against the project

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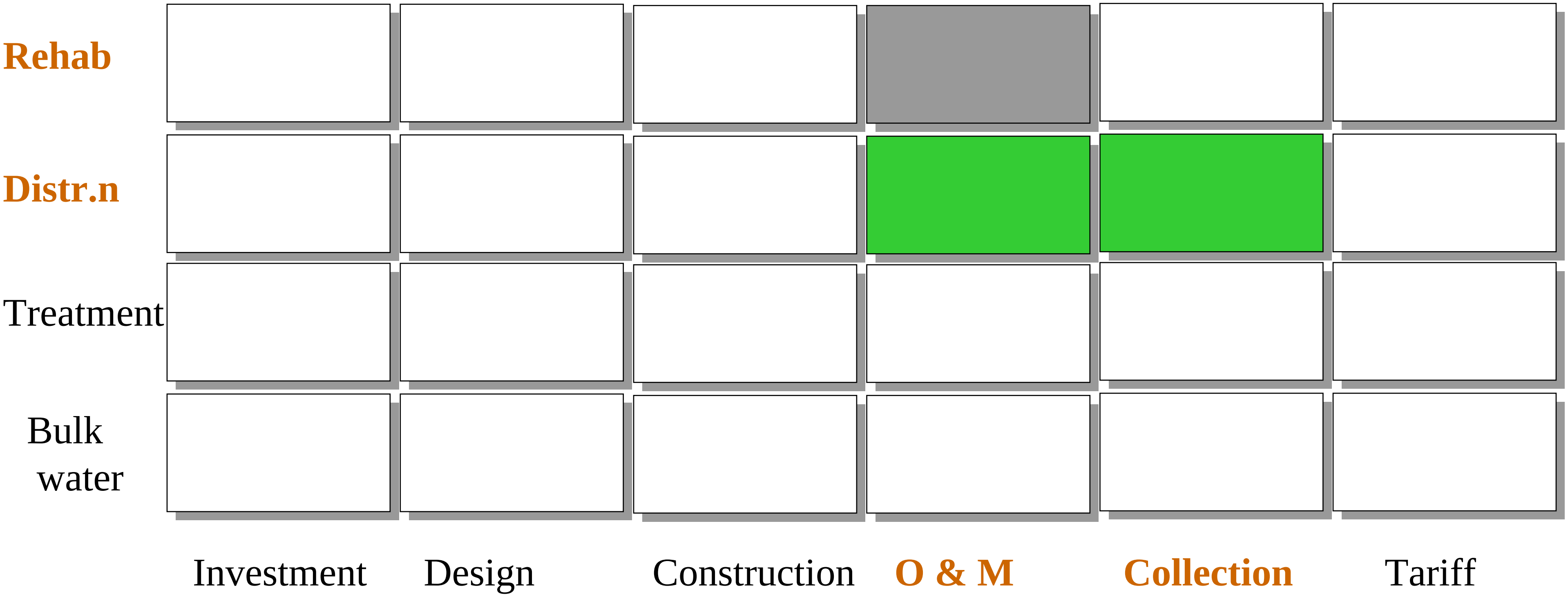
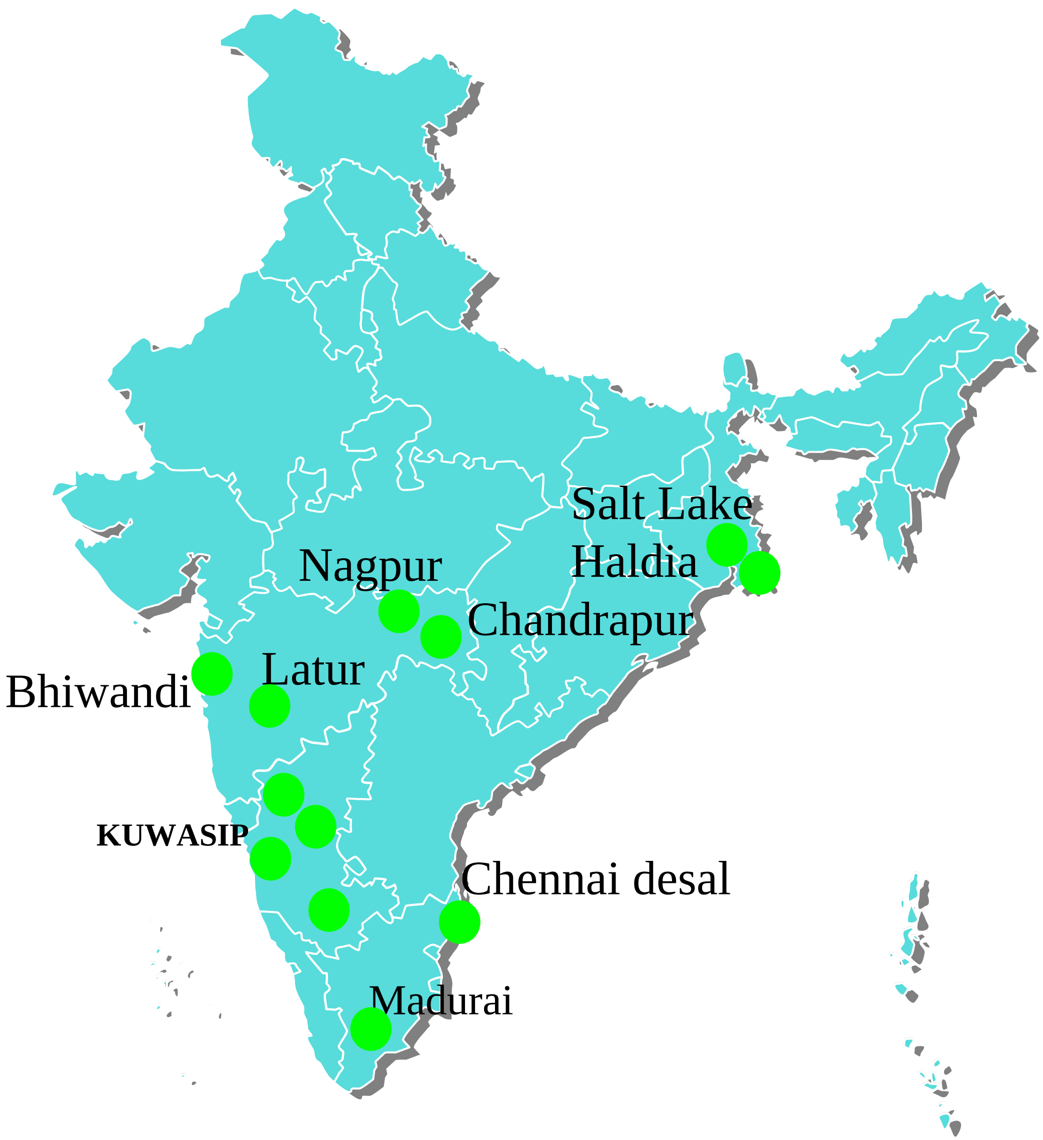
Quick Profile - Bangalore Delegated Management Contract

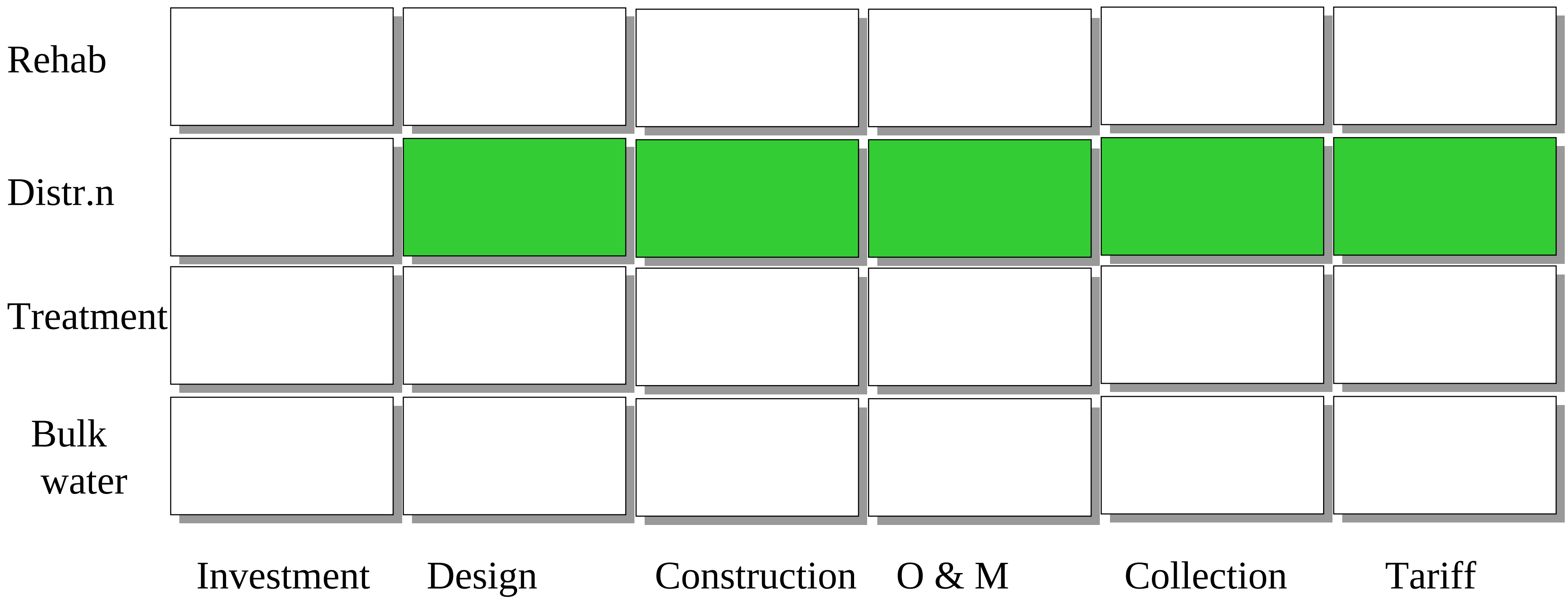


Status Project abandoned after two international firms submitted their proposals

Around the same time early successes emerge



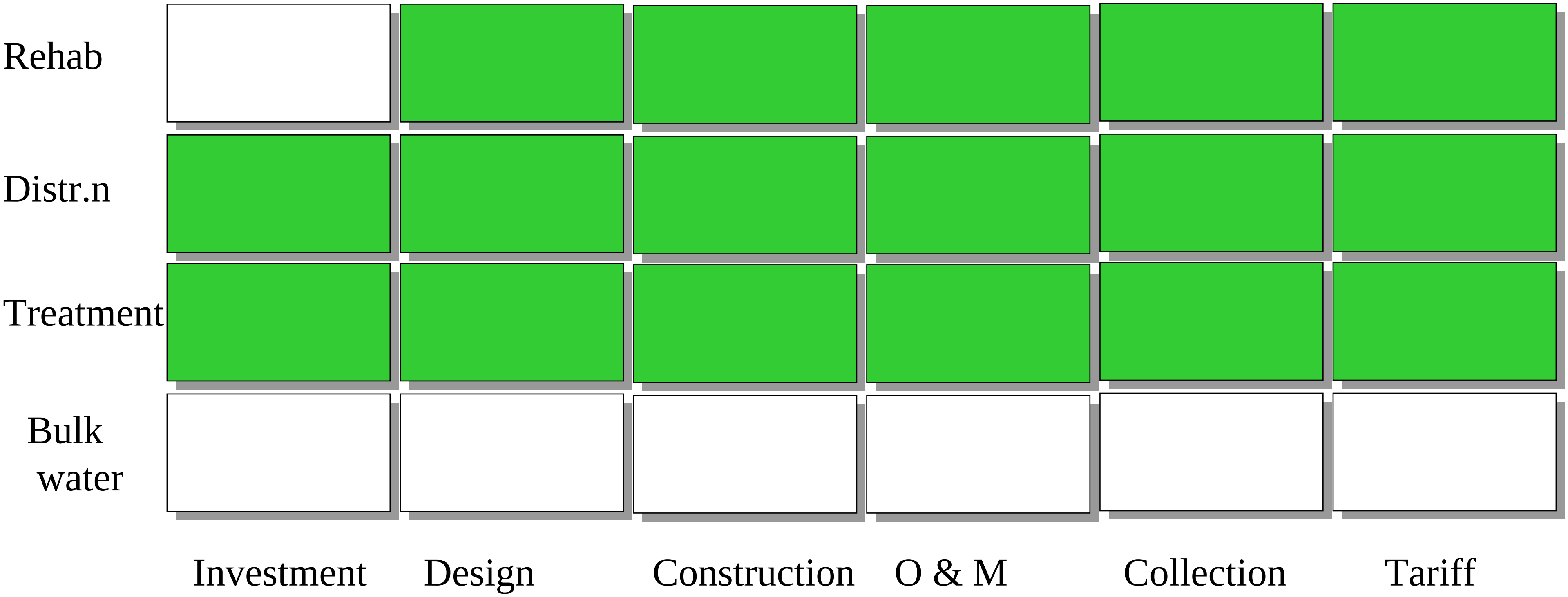
Quick Profile - Salt Lake



Status — JUSCO – VOLTAS consortium has signed the contract.
Project has received approval from JnNURM

Key Success Factors	Key Risks
Institutional clients with high credit quality.	Significant exposure to IT industry
High growth area	Operator takes all commercial risks
	Ground water usage to be discontinued

Quick Profile - Haldia



Status	JUSCO – Ranhill – IDFC successful bidder.

Key Success Factors	Key Risks
Industrial water supply	Risk of bulk water availability (rests with DJB)

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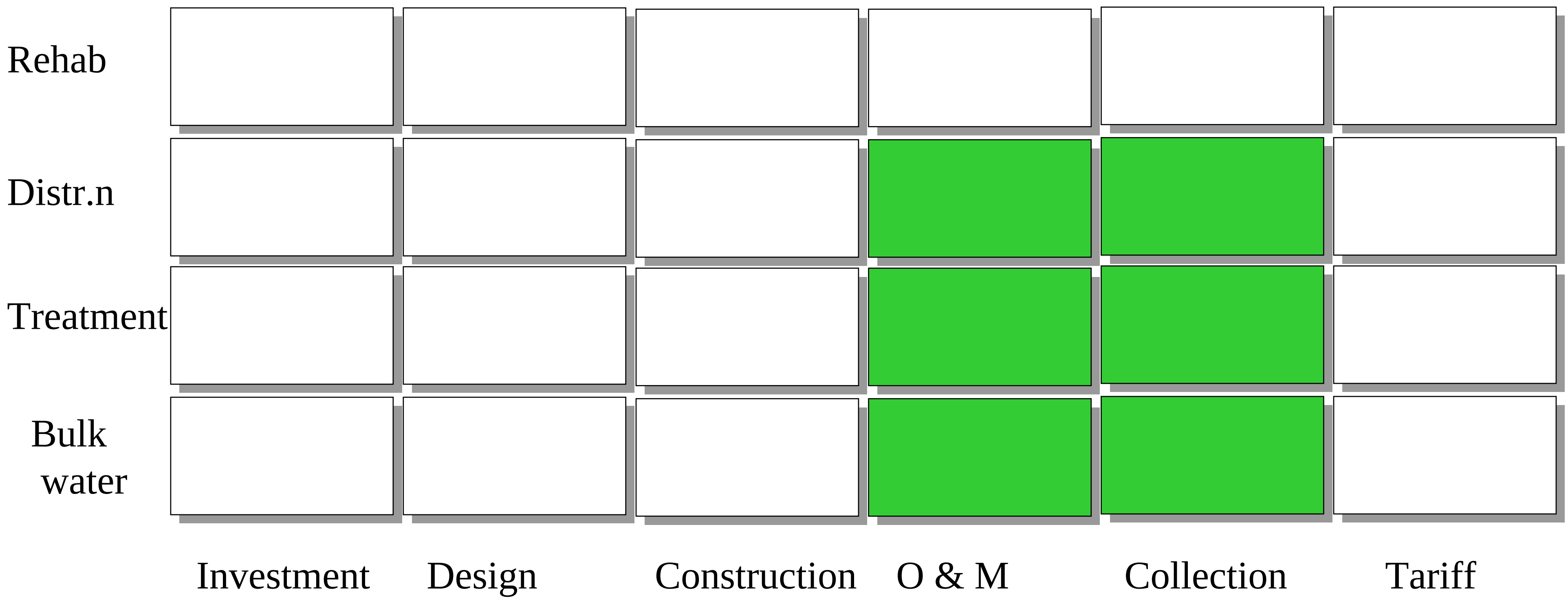
Quick Profile - Latur



Status Hydro Comp Consortium has taken over operations

Key Success Factors	Key Risks
Capital investment completed by Govt utility	All commercial risks with operator
Favourable metering and tariff policy	Ability to regularise illegal connections
Tariff curve for ten years fixed before bidding	Introducing volumetric tariff

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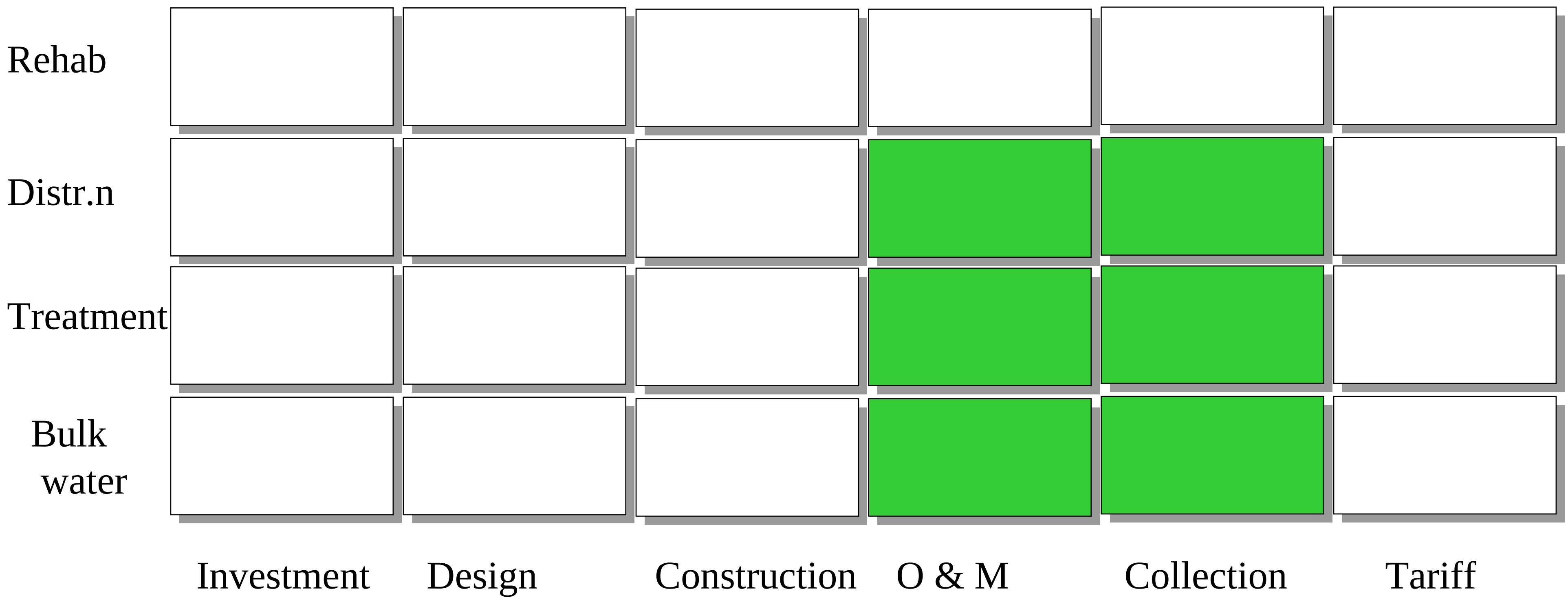
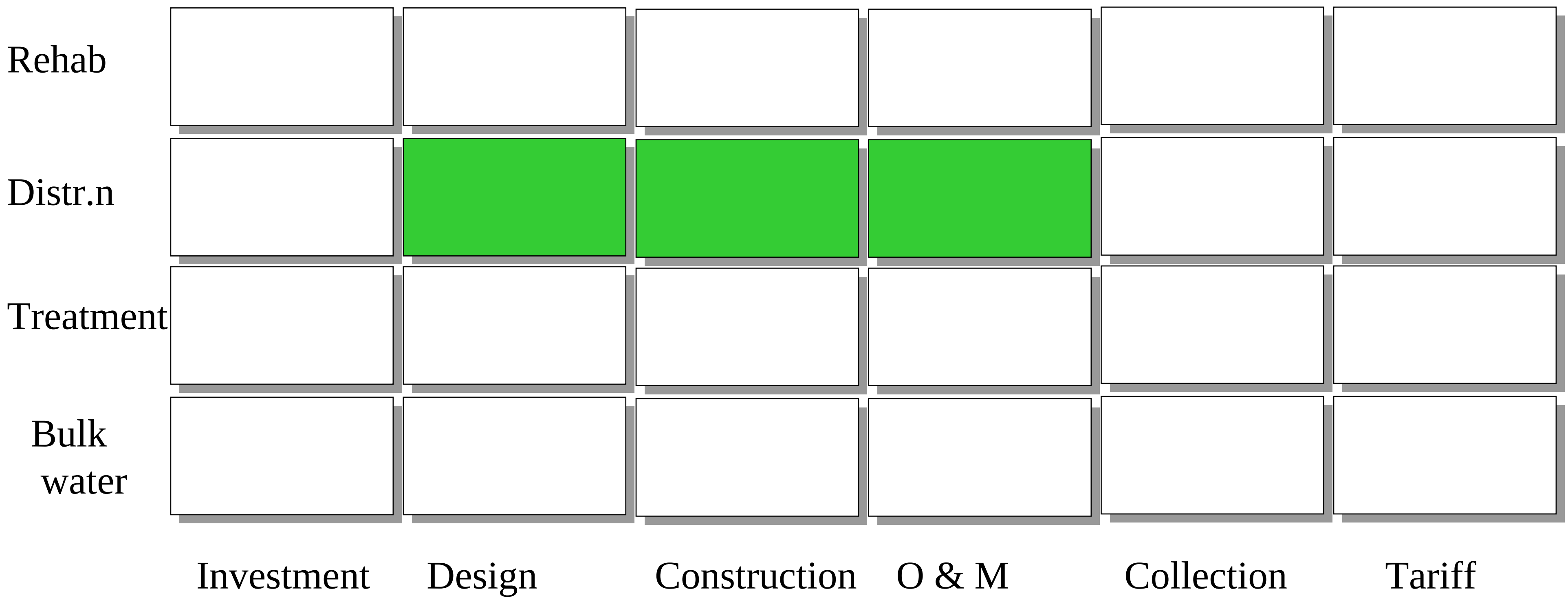
Quick Profile - Chandrapur



Status	Gurukripa Associates is running the ten year contract

Key Success Factors	Key Risks
Operator does not have an investment risk Tariff curve is pre-fixed prior to bidding	Operator bears all operations, billing and collection risk

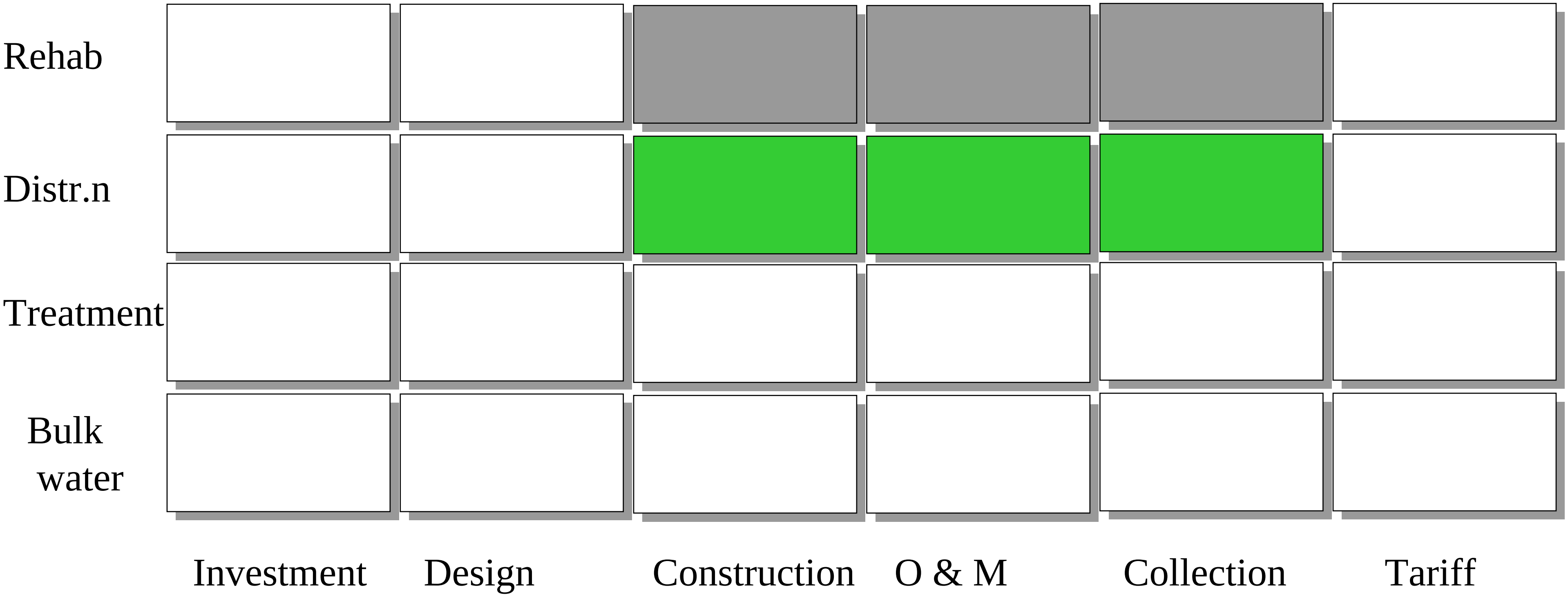
Quick Profile - KUWASIP 4 towns in Karnataka



Status — Veolia is the operator for pilot circles in four towns

Key Success Factors	Key Risks
Capital investments funded publicly, managed by operator Performance based fee model for the operator	Operator assumes purely technical risks

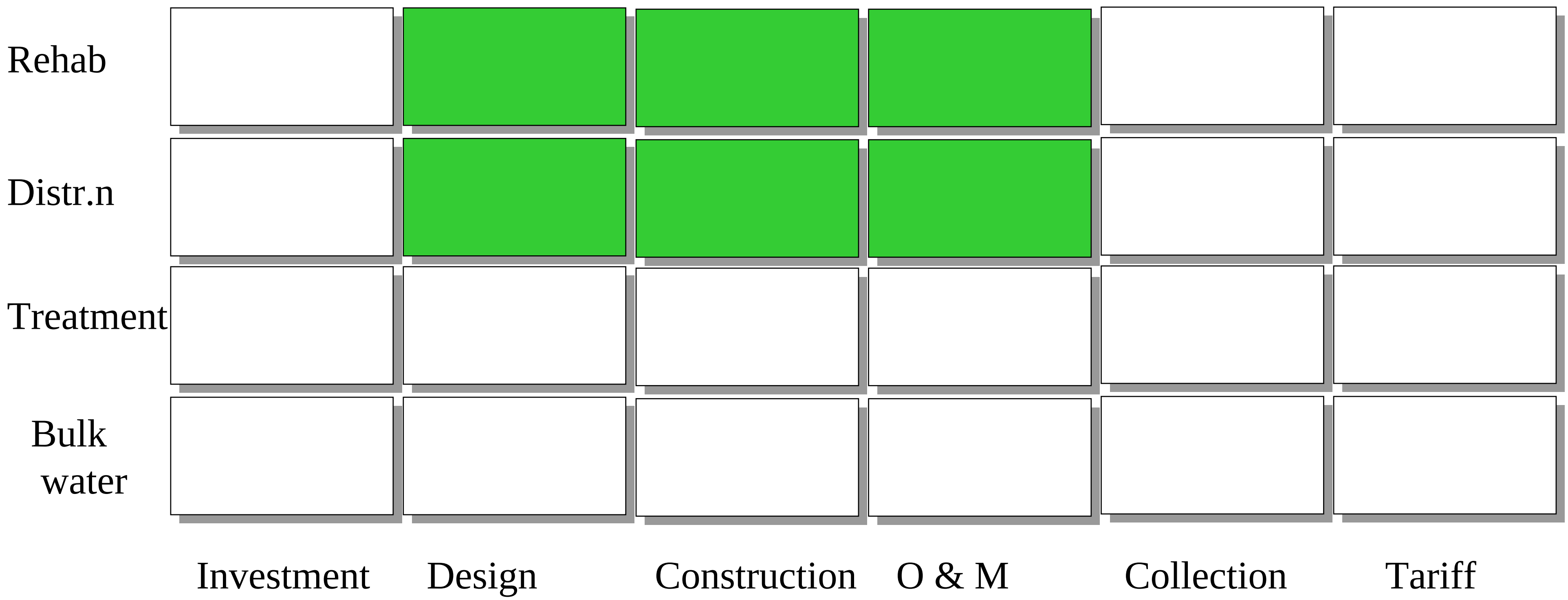
Quick Profile - Mysore



Status JUSCO is the successful bidder. Contract has just commenced

Key Success Factors	Key Risks
Grant funds from JnNURM	Cost of construction can change

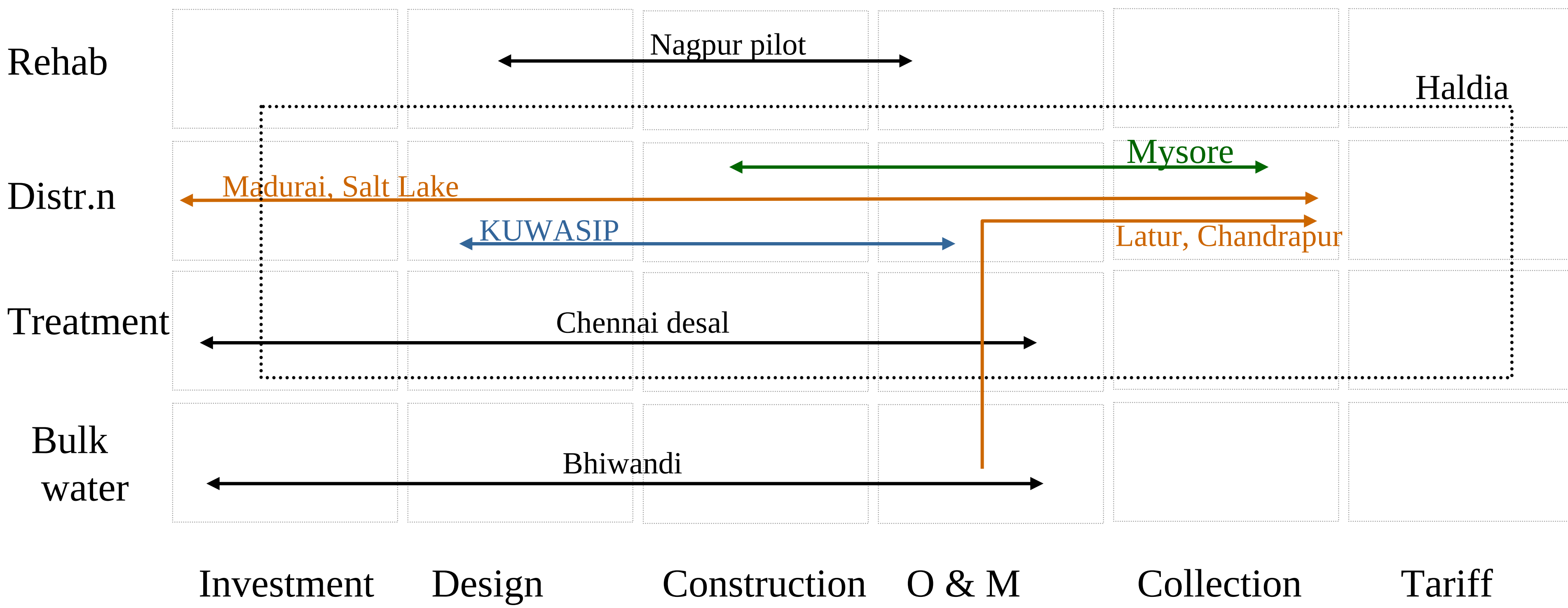
Quick Profile - Nagpur Pilot



Status	Veolia has progressed substantially into the contract

Key Success Factors	Key Risks
Well funded pilot project	No significant risks other than performance

Current successes – Scope of the PPPs



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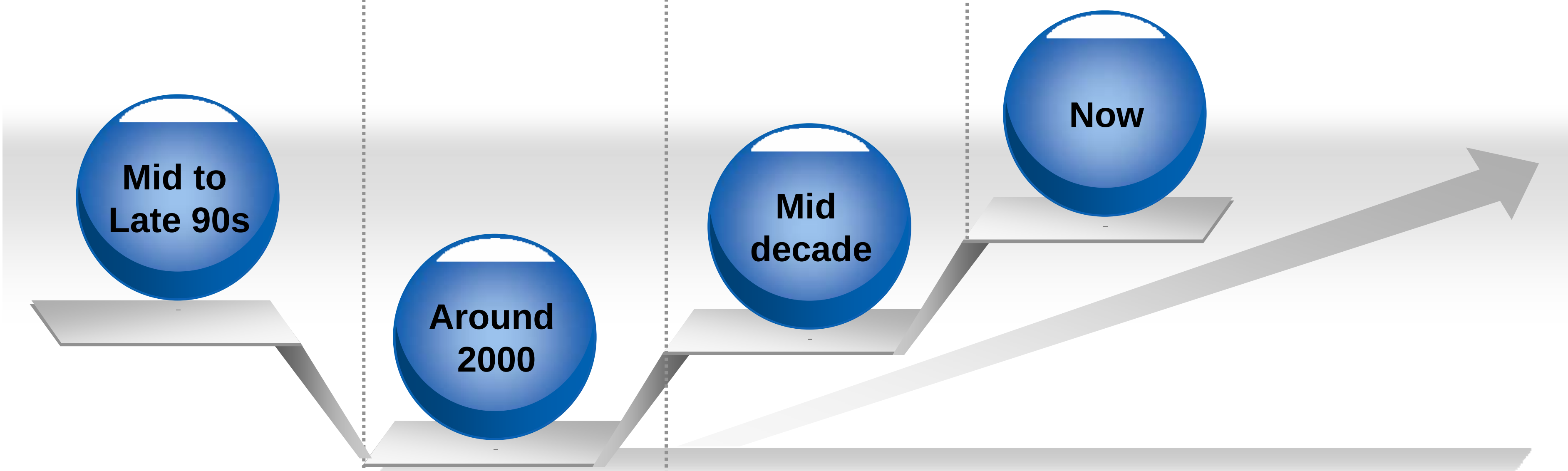
PPP timelines in water – Change is visible

Water sector is seeing increased activity in PPPs



PPP concepts failed in the water sector

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What has possibly changed?....................................... (1/2)

- **Projects are increasingly focusing on distribution improvements**
  - Unlike in the earlier years when capacity addition and bulk water was the focus
  - Hardly any pure bulk water project (with the exception of desal)
  - The expectation is more on service delivery improvement, not capital infusion from private sector
  - Ready made PPP concepts failed to work **when applied in** water sector
  - Bottom up efforts by water sector **through PPPs** are showing better results

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What has possibly changed…………………………….(2/2)

- **Domestic operator interest and success is high**
  - International operators are aligning with domestic operators
  - More comfortable with collection risks, generally have a higher commercial risk appetite
  - Gain higher political acceptability
  - NGO activism less vocal as compared to international operators

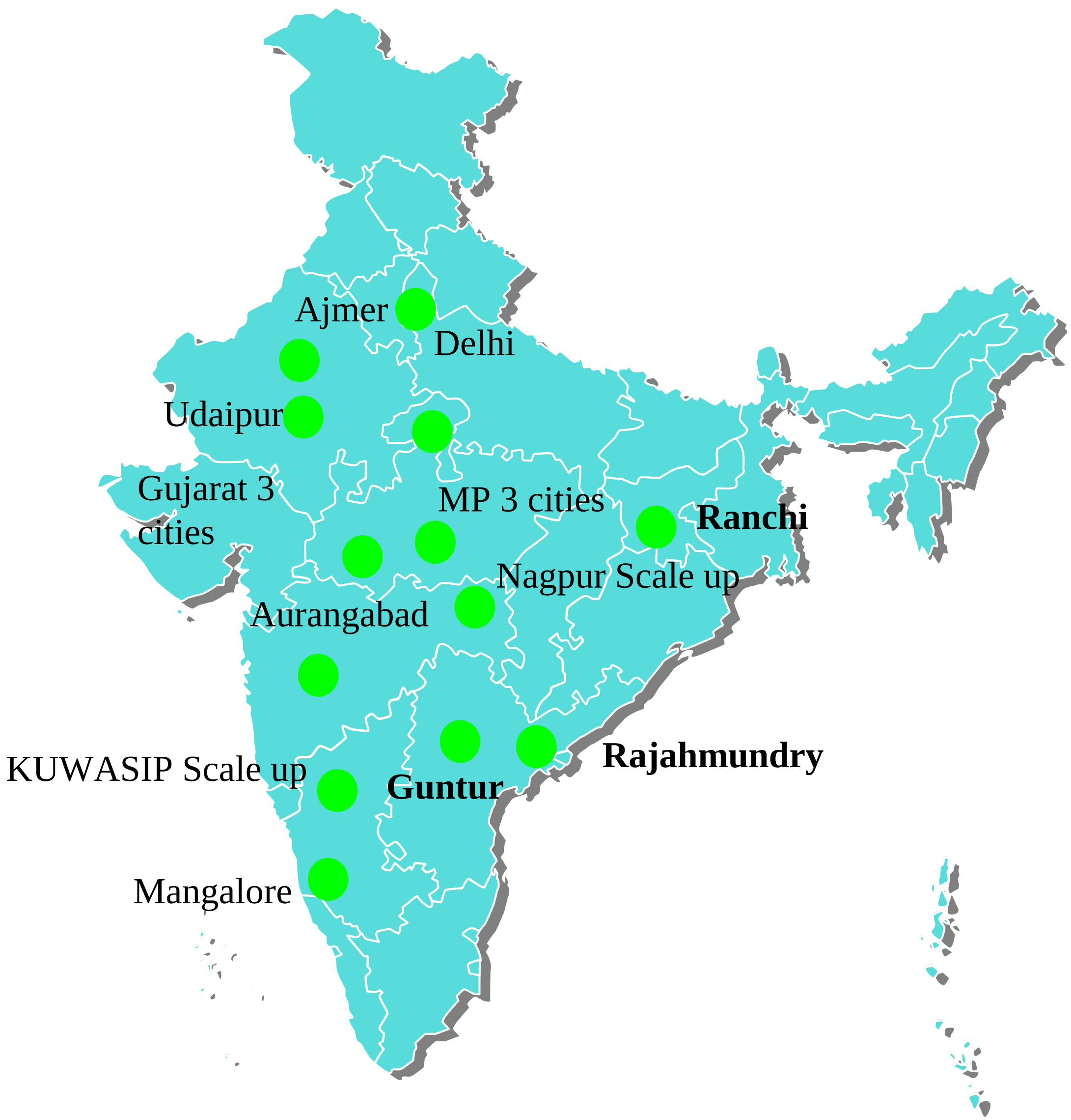
What have been the key enablers

- **Macro level - Strong public funding**
  - JnNURM support has been critical (Salt Lake, Mysore, Khandwa, potentially Madurai)
  - Public funding in other cases (KUWASIP, Latur)

- **Ground level – Attention to detail**
  - Karnataka had spent adequate time on preparation
  - Balanced approach in contract design (Salt Lake, KUWASIP, Latur)

Emerging Trends in PPP in water

Many initiatives are in the pipeline …..



Key changes in the emerging structures are..

- **PPP in water distribution is more amenable**
- **No significant tariff revision possible; project needs to be supported by grants for it to be viable**
- **Leveraging JnNURM / UIDSSMT grant funding gaining acceptance**
- **Performance based contracts can be an option where grant funding is limited**

What may accelerate the momentum?

- **PPP as a model for service level improvements proven in Indian context**
- **Political opposition becomes issue based rather anti-privatization drives**
- **Different projects structures emerging to suit varied conditions**
  - Cut short the discovery process for the ‘Acceptable Structure’
- **Draft Model Concession Agreement for key project structures can standardize risk sharing framework**
- **Constitution of an independent regulator for the sector**

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Private Sector Perspectives…..

- **What are the expectations from State and Central Governments on**
  - Policy Framework
    - Is the policy for PPP projects in water well defined?
  - Viability Gap Funding
    - Why has VGF Mechanism not been employed in the sector
  - Regulatory Frameworks
    - Will the constitution of an independent regulator for the sector help in the development of PPP projects in water?

- **What are the expectations from Urban Local Bodies**

- **What are the constraints in obtaining financing for such projects**

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Thank You

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Key Characteristics

Project	Operator	Size	Duration	Scope
Chandrapur	Gurukripa	3 lakh popl	10 years	O & M of city network
Latur	Hydro Comp	3.5 lakh popl	10 years	O & M of city network
KUWASIP	Veolia	18,000 conn	3.5 years	Upgradation and O & M
Nagpur	Veolia	10,000 conn	5 years	Upgradatation and O & M
Salt Lake	JUSCO	14 mld	30 years	BOT (WS & S)
Haldia	JUSCO	230 mld	25 years	BOT
Madurai	Hydro Comp	10,000 conn		Upgradation and O & M
Mysore	JUSCO	9 Lakh popln	6 years	Upgradation and O & M
Chennai desal	IVRCL-Befasa	100 mld	25 years	Bulk water BOT
Bhiwandi	SPML	6 lakh popln	30 years	Bulk water + mgmt