सत्यमेव जयते
Ministry of Urban Development
Government of India

ADB

PPP and Procurement Training Workshop for Top 33 Smart Cities

Picking the right private partner

Abhijit Bhaumik

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Session Structure

- Picking the right Private Partner
  - Selection / procurement process (Day 2)
  - Who is the **right** private partner?
- Typical risks in PPP projects
  - Identification of risks
  - Mitigation / Management of these risks

PPP Private Partner – Selection Process

NIT

- Announcement of the project, concessioning authority
- As broad-based as possible, focused on the target audience

Sometimes, Expression of Interest (EoI) – to gauge level of interest

RfQ

- Requirements for private partners to qualify should focus on key needs of the PPP project
- Short-listing criteria should neither be too stringent nor too loose

Short-list bidders

RfP

- Think through how specific the project technical parameters need to be – Eg., **Multi-level Car Parks**
- Ensure that evaluation of technical bids are in line with key project success factors
- The financial / price bid should be based on parameter(s) that can be reasonably determined, at the time of the bid

Project Preparation – Critical to selection of right private partner

Project Preparation → Procurement → Construction / Operations & Management

Financial Closure

- Project identification
- Pre-feasibility
- Detailed and accurate Project data / information – Technical, Operations, Revenue / Financial, etc.
- ULB decisions & project management structure

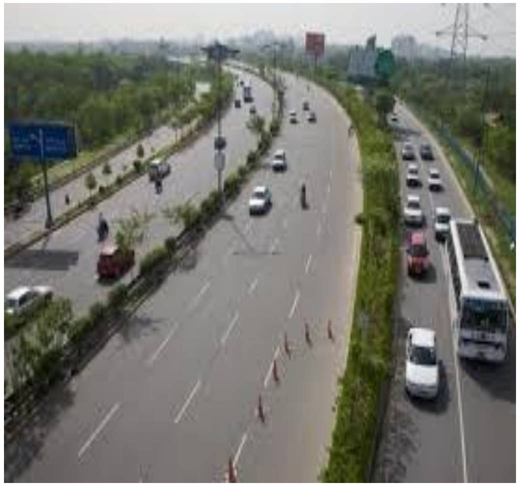
→ **Lower perceived risk by private partner => Lower risk premium, i.e., competitive bids**

Water Supply (Distribution) Projects

The "right" private partner

- Private sector efficiencies in design, detailed engineering, construction, operations and management
- Customer orientation and management (eg., customer grievance redressal mechanism)
- Project financing
- Focused on service delivery, in line with defined standards (not input oriented)
- Long term perspective, as distinct from short-term profit orientation
- Expect appropriate "economic returns", not usurious profits
- History of working well with concessioning authorities and non-litigious

Delhi – Noida Toll Bridge



- *Current annual revenue ~ Rs. 123 crs (FY 15)*
- *Listed on the Indian stock exchange with a market cap of Rs. 428 crs*

- April 1992, MoU signed between IL&FS, NOIDA and Delhi Govt., to develop a bridge over river Yamuna on BOOT basis
- Steering Committee with representatives of GoUP, GoD, MoUD GoI, IL&FS, was set up
- In 1996 SPV, NTBCL was established to implement the project
- In Nov. 1997, BOOT based Concession agreement was signed:
  - Concession Period of 30 years or till 20% IRR is achieved
  - Initial Toll fees determined by committee; to be revised annually based on inflation indexation
  - Non-compete within 5 km for 10 years
  - Govt. support on land acquisition & Clearances / approvals
- Project cost of Rs.570 crs, financed through 70:30 Debt:Equity ratio; one of the first non-recourse lending to Project SPV
- EPC and O&M Contracts to reputed players – project operational since Feb. 2000

PPP Project Risks

PPP Project Risks

Pre-Operative Risks

Risk Type	Description	Risk Allocation (Mitigation)
Delays in Land Acquisition	Unencumbered access to project site is delayed	SPC (Bid projects after 100% land has been acquired)
Inaccurate Project data	Inadequate or not robust data from development stage, resulting in change of project design / enhanced costs	SPC (Project preparation needs to be robust)
External Linkages	Access to project site is delayed	SPC (Bid out project after at-least RoW for access in place)
Financing	Delayed or enhanced costs, due to change in financing environment or inappropriate assumptions	Private Partner
Approvals / Clearances	Either delayed or not granted	SPC (Bid out after in-principle approvals for key clearances are available) **Eg., Land-fill site**

PPP Project Risks

Construction Phase Risks

Risk Type	Description	Risk Allocation (Mitigation)
Design Risk	Proposed design may not meet performance and service requirements. Delay and increased costs	Private Partner (SCP/ULB should outline clear output / service specifications only) Eg., **MSW Treatment**
Construction Risk	Construction of project may not be completed in time, on cost and as per performance specifications	Private Partner (Incentive for early completion & Dis-incentive for delay; Cost to be completely borne by private partner) **Eg., Roads / Highway Sector**
Approvals Risk	Delays in securing approvals required during construction phase	Private Partner (SCP to support)

PPP Project Risks

Operations Phase Risks

Risk Type	Description	Risk Allocation (Mitigation)
Volume Risk	Demand is lower than projected	Project Specific – either SPC / ULB or Private Partner
Tariff Risk	Reduced tariff or increase in tariff not in line with projections	SPC / ULB (Private Partner would need to be protected against such risks)
Payment Risk	End-Users or ULB doesn't pay	SPC / ULB (Establish process of determining will-full default)
Operations & Maintenance Risk	O&M Costs are higher than anticipated	Private Partner
Financial Risk	Inability to service debt	Private Partner, in case financing arranged by private partner (SPC would have to honour Lender's step in rights)

PPP Project Risks

Other Risks		
Risk Type	**Description**	**Risk Allocation (Mitigation)**
Change in Law	Change in current legal/regulatory framework that adversely impacts the project	SPC / ULB (Private Partner needs to be brought back to same financial status)
Events of default	Either party does not deliver on its contractual obligations*	SPC or Private Party (Balanced penal provisions)
Force Majeure Events	Events beyond the control of either parties, that results in inability to perform its obligations	If such situation lasts beyond 90-100 days, SPC may take over the project

- **Performance Standards**
    - Clearly defined performance standards (that are not too stringent)
    - Penalties only for non-delivery of **critical** performance paratmeters
    - Monitoring – as independent and automated, as possible

Summary – Risk Allocation

- Transferring all risks to private partner – unlikely to succeed in the long run
- **Balanced Risk Allocation – Key to successful PPPs**
  - Design, Construction, Operations & Maintenance – Private Partner
  - Key approvals / clearances – SPC / ULB (Concessioning Authority)
  - Demand (Volume) Risk – Either SPC/ULB – minimum off-take (Bulk Water Supply or STP) or Private Partner (Multi-level car park or Bus Terminal)
  - Tariff risk – SPC / ULB

Thank You