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High Level Seminar on Environmentally
Sustainable Cities

PPPs for Sustainable Urban Infrastructure

Sharad Somani
Partner & Head

Infrastructure, Climate Change and
Sustainability Services



❑ **PPPs**

❑ **PPPs in Cities**

- ❑ Needs and Challenges
- ❑ Imperatives to Success

❑ **PPP Examples**



PPPs

PPPs are not just

Public Party Pays, but

- Pays for performance and measurable improvements to living standards
 - Not a \$100 mn water project but clean, pressurized, continuous supply
 - Not a \$ 500 mn road project but few hours reduction in travel time on a pothole free road
- Pays to a party better suited to perform and manage risk
- Aims to pay a price that is less than its own (risk adjusted) cost of providing service

Private Party Performs, but

- Channels private sector efficiency and innovation in delivering public services
- Designs projects considering whole-life
- Shares international best practices in service delivery
- Willing to share risks for suitable return on invested capital

PPPs

- A medium to long term contractual arrangement between public and private sector of equitable and bankable risk allocation aimed at measurable outputs
- Fundamental shift in service delivery from asset creation to service procurement



PPPs in Cities

Do Cities Need PPPs?

Direct correlation to national growth

- Urban infrastructure service delivery drives investment climate, global competitiveness and economic output
- Cities pay central role job creation and tax revenues for countries

Constant demand from urban population for continuous improvement in services

- Rapid urbanisation with half of the world population in cities
- Traditional form of procurement and service delivery would need re-think

Urban infrastructure projects need sustained and dedicated investment

- Municipal finances demonstrate volatility including exposure to political vagaries
- Inadequate public resources and revenue streams to fund mega capital projects

Need for asset management and maintenance best practices

- Absence of asset management planning and whole life costing

Constant need to innovate and implement contemporary technology

- Ability of PPPs to leverage private sector innovation and international best practices
- Capacity of private sector to keep pace with technology advancements

Why Cities are most difficult to implement PPPs?

❑ Lack of Institutional Capacity

- ❑ Local governments lack expertise to structure, negotiate and monitor PPP frameworks and rely on national governments and / or development agencies assistance

❑ Willingness to charge rather than willingness to pay

- ❑ Apprehension of local governments' political leadership to charge for efficient services / greenfield developments for social reasons despite citizens' willingness to pay

❑ Credit worthiness and Fund raising ability

- ❑ Local governments' inability to demonstrate ring fencing and debt servicing capabilities resulting in lack of access to private capital and other avenues (bonds, equity, pension funds etc.)

❑ Stakeholder interactions

- ❑ Multiple stakeholders for projects necessitate complex structuring and interface issues resulting in delays and unattractiveness to private sector

Why Cities are most difficult to implement PPPs?

❑ Investor attraction

- ❑ Returns from urban projects may not appeal to investors commensurate to the perceived risks and technological challenges

❑ Systems and processes

- ❑ Local governments lack the systems and processes (viz., accounting, project management) for monitoring of PPPs and contractual framework

❑ Lack of Asset Information

- ❑ Limited primary and up-to-date information on asset requiring extensive studies for information gathering

Imperatives to Success

Political Will

- Need for consistent infrastructure strategy from elected officials

Enabling framework

- A law / policy to guide the framework
- Transparency in procurement
- A knowledge centre to drive the projects and build local capacity
- To empower local governments on decision making and implementation

Plan Ahead

- Need for a long term demand planning to ensure sustained investment and available infrastructure capacity

Invest resources in project development

- Project structuring, risk assessment and allocation
- Reduces risk of failure, extended negotiations and costlier post mortem analysis

Imperatives to Success

- ❑ **“What required” rather than “how done”**
 - ❑ Ensure output based performance parameters
- ❑ **Community Involvement and Development**
 - ❑ Need for educating and involving local community at all stages of project
 - ❑ Create opportunities for local business to participate and benefit from projects
- ❑ **Develop local financial markets**
 - ❑ To help private sector tap local financial capital and minimize financing risks



PPP Examples

Royal Women's Hospital, Melbourne

- **Established PPP framework**
 - Partnerships Victoria
- **Detailed feasibility analysis and structuring process**
 - Options study, feasibility study and investment evaluation carried
 - 12 – 15 months spent on studies and structuring
- **Output based specifications**
 - Helpdesk
 - Accommodation
 - Utilities
 - Vehicle parking
 - Garden maintenance
 - Pest control
- **Performance based payment**

Noida Toll Bridge, India

- **Inadequate risk assessment and structuring**
 - Structure of guaranteed return without assessing risk of cost overrun
- **Increase in procurement cost**
 - Loss of revenue due to demand shortfall being added to project cost
- **Improper incentivisation**
 - Concessionaire also given development rights in prime urban space
- **Increase in usage fees to users**
 - Contract provision passing on expenses to government and end users

TransJakarta Bus Rapid Transit, Indonesia

- **Unclear institutional framework and decision process**
 - Design and planning done without consultation resulting in design mistakes
 - Limited capacity of TransJakarta
- **Lack of roles allocation**
 - SPV not given control on revenues from ticket sales
 - Lack of budget from parliament for planning
 - SPV not empowered to regulate traffic in BRT corridor
- **Inadequate demand planning**
 - Lack of feeder buses
 - Sub-optimal implementation of project

Alternate Financing

MMRDA, India

- **Leverage of land**
 - Marshland developed into financial centre
- **Unlocking real estate value**
 - Long term leases to developers
- **Funding source for other urban infrastructure projects**
 - Lease revenue used to fund viability gap funding for urban transport projects

Alternate Financing

Other cities accessing alternate financing techniques – Seoul, Nagpur, Mumbai, Cairo, Istanbul, Capetown, Bogota
Special entities for financing – IIFF (Indonesia), IIFCL (India), LLDF (Srilanka)

Studies for alternate financing –

- Carbon credits for thermo technical rehabilitation of buildings in Ulaanbaatar**
- Increase land lease revenues, exploring JVs and PPPs in Kolkata**
- Performance based central funding – JNNURM program, India**



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Contact us:

For further information, please contact:

Sharad Somani

Partner & Head

Infrastructure, Climate Change and
Sustainability Services

sharadsomani@kpmg.com.sg

Tel: +65 6213 2276

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