High Level Seminar on Environmentally Sustainable Cities

PPPs for Sustainable Urban Infrastructure

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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
Examples

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
Examples

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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