Public Private Partnerships: India's Experience

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Areas for PPP

- Mainly in utilities
  - Water and Sanitation
  - Urban transport
  - Other infrastructure such as airports, ports, roads
  - Electricity generation, transmission and distribution

Why PPP?

- In areas where Government wants to be in but is unable to on its own due to:
  - Financial Resources
  - Technical skills
  - Marketing skills
  - Needs a freedom usually not available in government
- Sometimes to enhance efficiency
- Sometimes to facilitate charge collection

Extent of Private Participation

- In most countries, actually quite small
  - Urban PPI only about 10% of total PPI
  - PPI s as % of GDP about 1%
- But share of PPI as a % of total investment in infrastructure widely varied and quite high in some countries. In Brazil, about 57% in 2001.
- In China, less than 4% of investment in infrastructure financed by PPI
- In India, no significant impact at all

Types of PPP

- Arms length contracts
- Joint ventures
- SPVs
- Private ventures with significant contribution by government (example land)
- Ultimately, both sides needs to show clear gains, esp private sector

Problems in PPPs

- Cost recovery. True of virtually all infrastructure services such as roads, airports, power, transport etc. Telecom has been an exception.
- Problem political will but also the ability of users to pay
- But in some areas, possible to get the projects going

Problems in PPPs

- In some cases, solid waste management and water supply have become amenable for payment
- Urban transport: Experience mixed
- Highway (toll roads) construction: Mixed
- Most of the time, need to work with local governments; they are amenable to pressures
- Cost escalations a constant problem
- In some cases, foreign exchange risks also

Problems with Governments

- Change in governments lead to repudiation of contracts
- Inability of governments to adjust to changes in situations
- Inability to deliver its part of resources, ex. Land acquisition
- Inability of governments to draw up sound contracts
- Difficulties in foreseeing the risks and contingent liabilities
- Typical problem of governments required to follow procedures rather than ensure results

Problems with private sector

- Inability to forecast the demand for its services correctly
- Inability to forecast the financial requirements correctly
- Inability to raise the financial resources in time
- Delays on the part of governments lead to cost escalations and the projects becoming unviable
- Underestimation of the complexity of the project as well as the inputs actually needed
- Deliberate underestimation of financial requirement so as to grab the contract (and then ask for escalations)

Risks Involved in PPPs

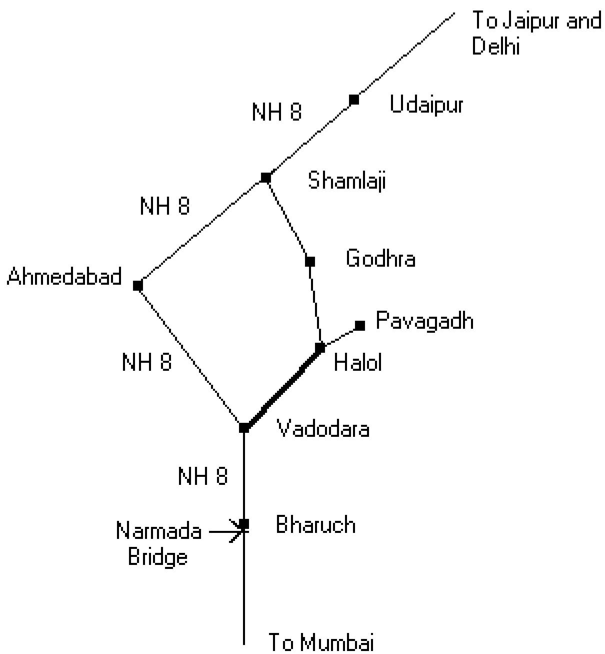
- Demand risks
  - In demand itself
  - In its elasticity
- Financial risks
  - Complex payment mechanisms, complex financing deals, non recourse financing
  - Presence of multiple funding agencies with very different skills, interests and ability to monitor
- Supply risks
- Management risks
- Regulatory risks
- Their rigidity increases the risks: most cannot be closed down or moved elsewhere

SOME CASE STUDIES

The Case of the Vadodara Halol Toll Road (1)

- VHTRL - A Special Purpose Vehicle (SPV) promoted by Government of Gujarat State and IL&FS
- Concession Agreement signed between SPV and GoG on 17th October 1998
  - Widening and strengthening the existing 31 KM two lane road to four lane with a service road on either side
  - Construction completed on 15th Sept 2000
- Cost of project was Rs 1608 million instead of the budgeted amount of Rs 1750 million
- Commercial operations started from October 2000

Map


To Jaipur and Delhi
Udaipur
NH 8
Shamlaji
NH 8
Godhra
Ahmedabad
Pavagadh
NH 8
Halol
Vadodara
NH 8
Narmada Bridge
Bharuch
To Mumbai

The Case of the Vadodara Halol Toll Road (2)

- Salient Features:
  - Two lane dual carriage way with service road on either side of the main carriage way.
  - Toll plaza: Four booths for normal size lanes and one booth for over dimensional lane at either end. Increase in booths to ensure that the queue length of vehicles does not exceed five.
  - Two intermediate toll booths for the major junction.
  - Shorter by 90 KMs.

Means of Finance

(Rs million)

Equity and Preference shares		Debt	
GoG- Equity	50	Sub Ordinate Loan	100
IL&FS	150	Term Loan	658
GoG- Preference	100	Deep Discount Bond	300
AIG	100		
Punj Lloyd Ltd.	150		
Total	**550**	**Total**	**1058**
TOTAL - 1608			

Toll Materialization

(Rs million)

Month	**No. of Days**	**Toll Revenue**			**% Variance**
		Projected	**Actual**	**Variance**	
October'2000 to March'2001	159	66.87	42.50	24.37	36
April'2001 to March'2002	365	187.45	82.10	105.36	56
April'2002 to Sept'2002	183	115.28	39.20	76.09	66
Total		**369.60**	**163.79**	**205.81**	

Traffic Materialization

	Average Daily Traffic				Average Daily Toll Collection (Rs)
	LMV	**LCV**	**Heavy**	**Total**	
Projected	4,130	3,894	23,489	31,513	990,500
Actual	2,188	1,947	12,567	16,702	525,000
Variance	1,942	1,947	10,922	14,811	465,500

Solution Devised

- Toll increased by 30 to 60 per cent
- Led to diversion of traffic to the service roads right by the side of the toll road, nothing could be done about it
- Diversion to the NH 8 which was still available; problem compounded by works on the bypass that led to increase in traffic time
- Still unable to overcome the problem of viability

Solutions (2)

- Interest burden on debt reduced from 15.5% to 8%; still interest costs alone were more than toll revenues; including operating costs and principal repayments, they were more than double.
- Impossible to make it viable as a standalone.

The Case of the Coimbatore Bypass

- LTTIL - A contracted project promoted by Government of India
- Agreement signed between L&T, GoI and GoTN on 13th October 1997
  - Construction of a 27.67 KM two lane bypass at Coimbatore to bypass the city
  - A bridge at Athupalam close to the city limits as an additional item (not in the bypass route)

- Construction completed on 15th Sept 2000
- Cost of project was Rs 900 million of which Rs.30 m was for the bridge (actual cost: Rs.110 m)
- Concession of 30 / 20 years
- Commercial operations started from Jan 2000 / Dec 1998

Financing

- LTTIL Equity: Rs.420m
- Debt from Institutions: Rs.680m

Problems

- For the bypass, there was no major issue. But for the bridge, users refused to pay. The existing bridge was widened to make it a four lane one, but once the construction was complete, users refused to pay any toll charges.
- Agitations, made into a political issue
- L&T stuck to the terms of the contract that enabled it to collect toll charges; refused any compromises on the rates or applicability

Resolution

- What was seen as a contractual problem by L&T was seen as a political problem by the government. More so after the government changed.
- The impasse continued for long, with L&T not collecting any significant revenue at all.
- Finally many categories of vehicles had to be exempted, making the project unviable.

The Financials of the Project

(Dec 98 to July 2000, Rs.m)

Type of vehicle	Amount collectible	Amount collectible on vehicle basis	Amount as per Minister's suggestions	Actual amount collected
CJV	20.5	18.4	20.4	9.6
LCV	18.3	16.8	18.2	4.1
Buses	32.1	24.1	28.9	1.5
Trucks	39.8	37.9	39.7	11.6
MAVs	2.8	2.7	2.7	1.8
Total	113.4	99.9	110.0	28.6

Palace on Wheels

- A JV between IR and the Rajasthan Tourism Development Corporation (RTDC), Government of Rajasthan (1982) (thus strictly not a PPP)
- A tourist service, mainly for foreign tourists to introduce them to the tourist spots of Rajasthan and Taj Mahal.
- Cost of the rake shared equally by RTDC and IR.
- IR responsible for the operation, maintenance and security of operation.
- RTDC responsible for housekeeping, catering, local sight seeing and entertainment of the guests
- Revenues shared 67:33 between IR and RTDC. Costs are borne by respective parties.

- There has been continuous disputes regarding costs incurred. The revenue sharing formula depended on the relative costs and hence the margins for each.

Own Your Wagons Scheme

- Another PPP initiative attempted by IR
- In this model, wagons owned by the users. They can lease their wagons to IR which pays the owners lease charges @ 16% p.a. for ten years. IR uses these wagons at its discretion, and maintains the wagons.
- There are variations of this scheme also: such as lease cum guaranteed clearance, and guaranteed clearance without lease charges but with concessions on freight.

Own Your Wagons Scheme (Contd.)(1)

- Some success in this scheme, but not as much as was expected.
- Main problem was several one sided contract provisions such as payment for damaged wagons by IR (due to accidents etc.) only at book value, inability to adhere to service levels, esp the transit time with no meaningful penalty clauses and the charges for maintenance and operations fixed unilaterally by IR.

Delhi Airport

- Delhi International Airports Ltd. (DIAL) a JV with:
  - GMR: 54%
  - AAI: 26%
  - Frapon AG, Frankfurt: 10%
  - Malaysian Airports Authority: 10%
- Reputed to be one of the best airports in the world, won many awards

DIAL (Cond.) (1)

- But… not a profitable one.
- In 2011-12, it incurred a loss of Rs. 416 million, and has a cumulative losses of Rs.16.25 billion, threatening to wipe out its equity
- Despite increase of revenues from Rs.10.76 billion to Rs. 14.69 billion, and a steady incase in passengers (35.88 million in 2011-12; growth of 20% over the previous year), still unable to break even.

DIAL (Cond.) (2)

- Cost of construction was Rs.128.5 billion
- In 2011-12,
  - Revenues from operations: Rs.8473 m
  - Revenue share paid to concessionaire: 831m
  - Costs of operations and administration: 5883m
  - EBITDA: 1758m
  - Interest and financing charges: 1653m
  - Depreciation: 935m

DIAL (Cond.) (3)

- Main response was to ask for increase in user fees.
- After much discussions with the government, got an increase in UDF by 345%. It would increase its UDF revenue from 195.8 m in 2011-12 to 1068 in 2012-13 and 1130 in 2013-14. (This is n addition to the passengers' user fees of Rs.200 for domestic and Rs.1300 for international.
- Hopes to increase its duty free shops and revenues therefrom

DIAL (Cond.) (4)

- Trying to get the land put to commercial use, but so far has not succeeded (it has about 5.4 million sq ft of land, all allotted by government at concessional prices)
- But these increases in fees has made it the most expensive airport in the South Asian region. Most airlines finds the charges prohibitive, making them unviable. Some international airlines have discontinued from Delhi altogether.
- Difficult to make it viable at all.

Learnings

- One cannot classify PPPs as “successes” or “failures”. There have some areas where they have achieved their objectives at least partially; some areas where they have not.
- Problems with different PPPs have been different, yet there are some common themes.

Learnings (Contd.) (1)

- Problems arise due to:
  - Inability to estimate demand correctly and/or to provide for action plans if they do not materialize (Vadodara Halol toll road)
  - Inability to see the larger social context in which these operate and manage not only the contracts, but also the political processes (Coimbatore bypass)
  - Faulty contracts, especially with regards to financials and obligations (Palace on Wheels); exercise of monopoly leading to one sided contracts (Own Your Wagons Scheme)
  - Faulty project reports at the inception itself (DIAL, many toll roads)
  - Reneging on obligations (walking out recently from Highway contracts by private operators, by the government as with Coimbatore bypass)

Taking Forward

- Success of PPPs will ultimately depend on the ability to enforce contracts and willingness to abide by them. Governments must recognize that private parties are there to Make at least a decent return on investment and hence there must be a scope in the contract to do so.
- Hence a realistic and well drawn project report is the starting point.
- Skills in drawing up good contracts, with suitable clauses for penalties and incentives, and
- For termination

Taking Forward (Contd.) (1)

- Willingness of governments to honour the commitments of previous governments
- Adequate monitoring mechanisms
- Clear dispute resolution mechanisms

THANK YOU