

Making Municipal PPPs Work

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WORLD BANK GROUP

Overview

A taste of muni PPPs from Brazil

More flavors from Mexico

India's experience with muni PPPs

Canada's Infrastructure Bank

Final thoughts

Brazil's Muni PPPs

Public Schools in Belo Horizonte

Name of the project: Public Schools in Belo Horizonte, Minas Gerais

Duration of the projects: 20 years.

Payment mechanism: monthly availability payments.

PPP delivery model: DBfO

Funding and financing: Public and Private financing



PPP Hospital do Subúrbio in Salvador de Bahia

Name of the project: PPP Hospital do Subúrbio, Salvador de Bahia

Duration of the projects: 10 years, with a renewal possibility of 10 years.

Payment mechanism: monthly payments, with 70% on quantitative indicators, 30% on 31 performance indicators

PPP delivery model: O&M

Funding and financing: Public and Private financing



Arena Mineirão and Arena Fonte Nova Stadiums

Name of the projects: Arena Mineirão Stadium, and Arena Fonte Nova Stadium.

Duration of the projects: Arena Mineirão 24 months, Arena Fonte Nova 39 months.

Payment mechanism: monthly availability payments.

PPP delivery model: BOO

Funding and financing: Minas Gerais, 100% private; Bahia, 61% public and 39% private.



Mexico's Muni PPPs

Integral Sanitation of Wastewater of Saltillo

Name of the project: *Integral Sanitation of the waste-water of the municipality of Saltillo, Cohavila.*

Duration of the project: 20 years from start of construction

Payment mechanism: monthly availability payments

PPP delivery model: BOOT

Funding and financing: 29.4% public & 70.6% private.



Administrative Complex in Tlajomulco de Zúñiga

Name of the project: Administrative Complex in Tlajomulco de Zúñiga

Duration of the project: 30 years

Payment mechanism: Availability payments

PPP delivery model: Project for Service Provision (PPS)

Funding and financing: Funding: 10% equity, 90% other financing (including 2 Mexican public financial institutions).



Street lighting in Mexico City

Name of the project: Street lighting in Mexico City

Duration of the project: 9 years

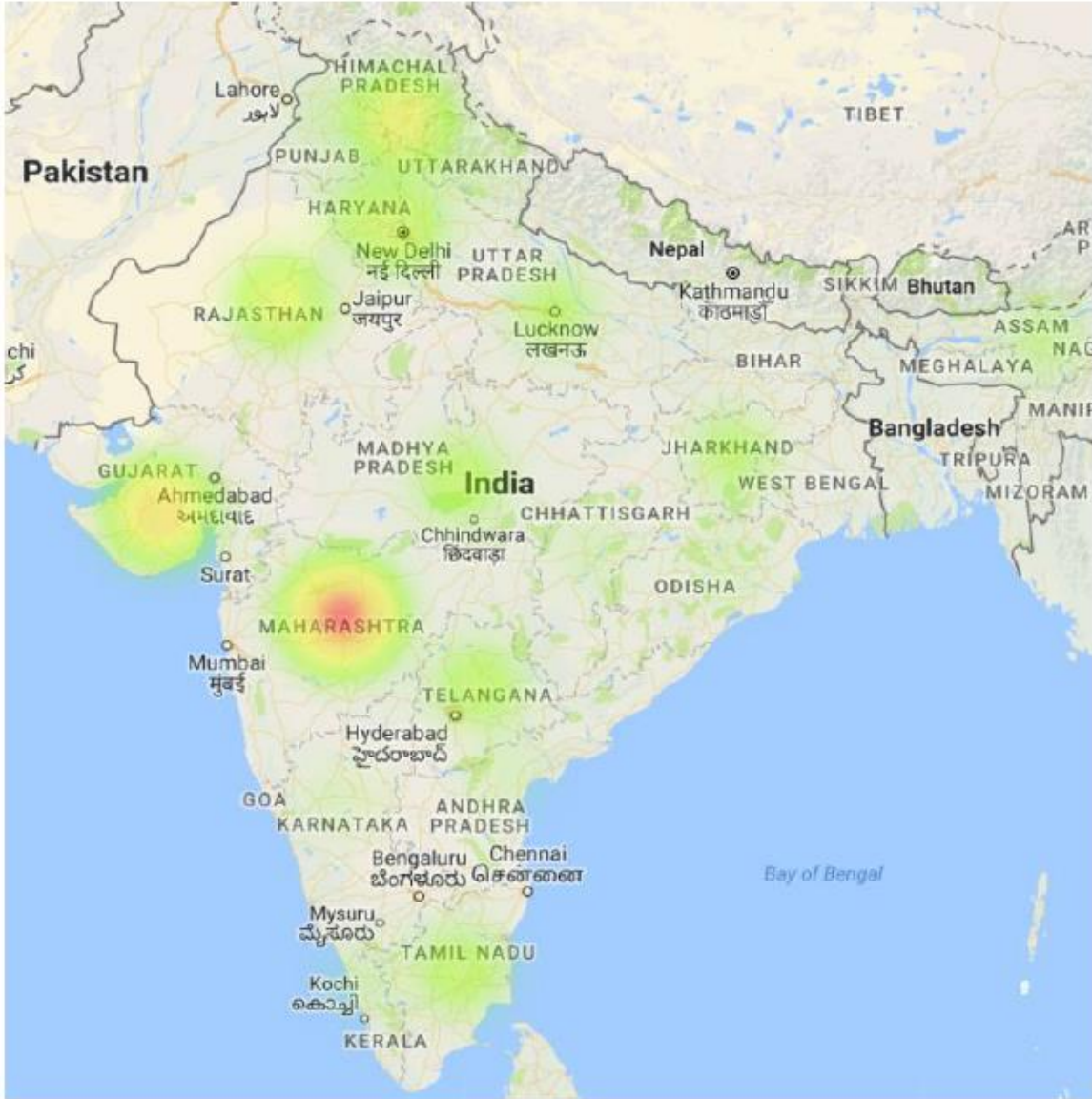
PPP delivery model: Project for Service Provision (PPS)

Funding and financing: 100% funded by the contractor



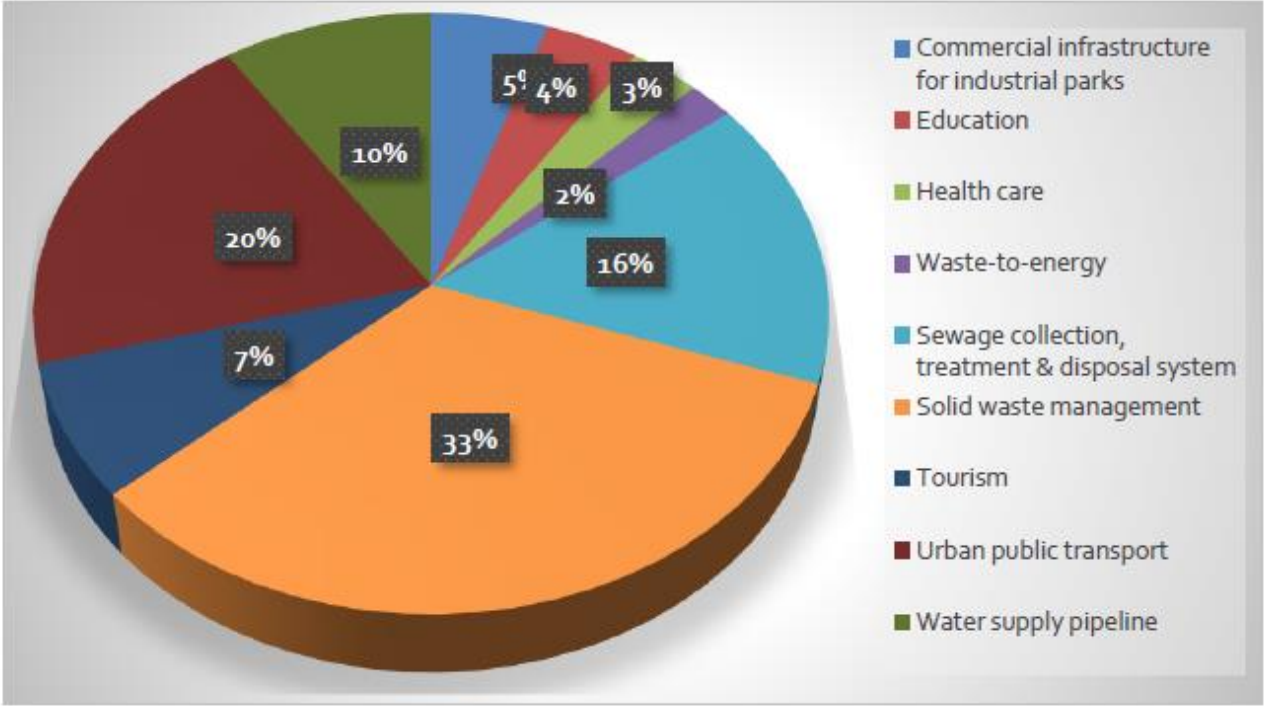
India's Muni PPPs

India's Municipal PPPs



Source: Derived from data extracted in: <https://www.pppinindia.gov.in/infrastructureindia>

Sector Shares



Types of PPPs

Build-Operate-Transfer (BOT)

- Most common: 28 of the 96 municipal PPPs (29%)
- Most tourism infrastructure projects (86%)
- Most education infrastructure projects (75%)
- Most water supply projects (33%)

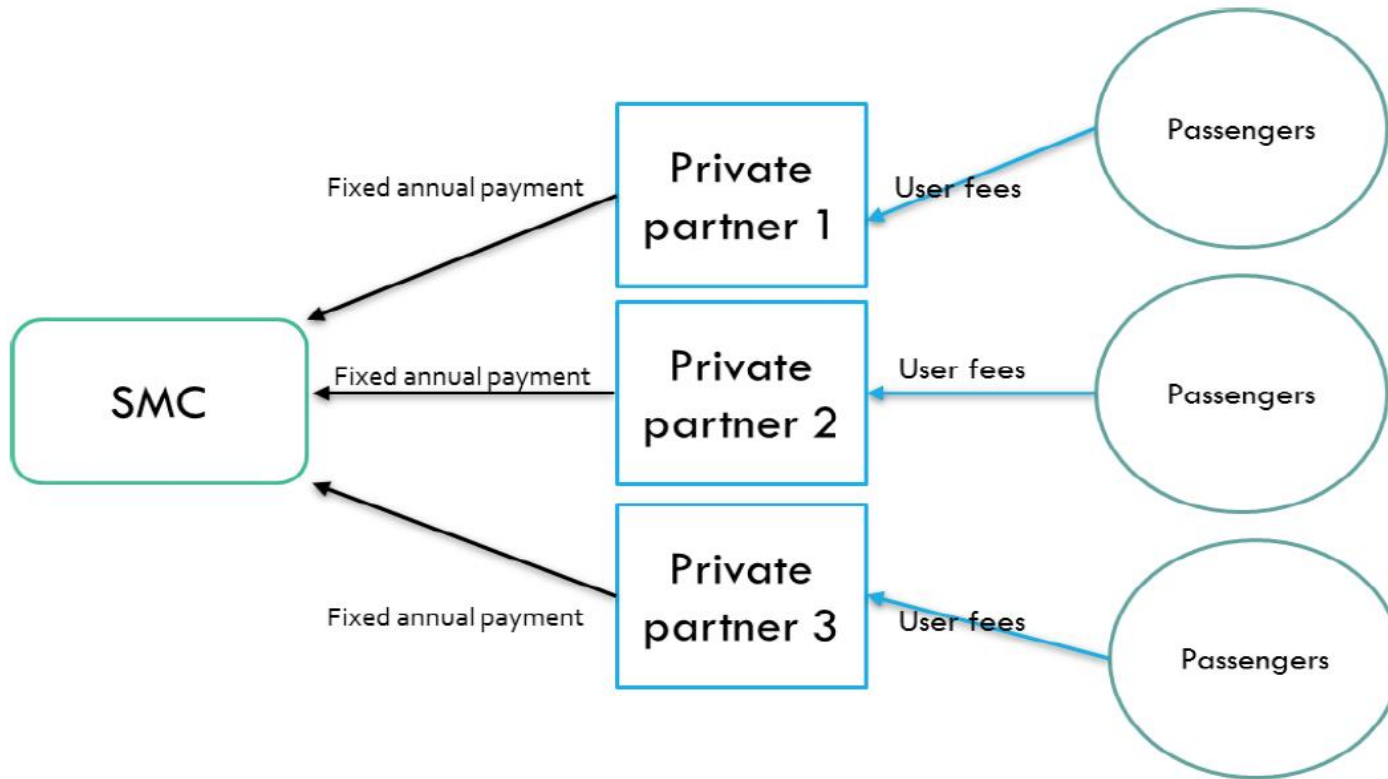
Design-Build-Finance-Operate-Transfer (DBFOT)

- 21 of the 96 municipal PPP projects (22%)
- Most sewage collection, treatment and disposal system projects (20%)
- Most urban transport projects (47%)

Build-Own-Operate-Transfer (BOOT)

- 14 of the 96 municipal PPP projects identified (15%)
- Most solid waste management projects (22%)

City Bus Service in Surat

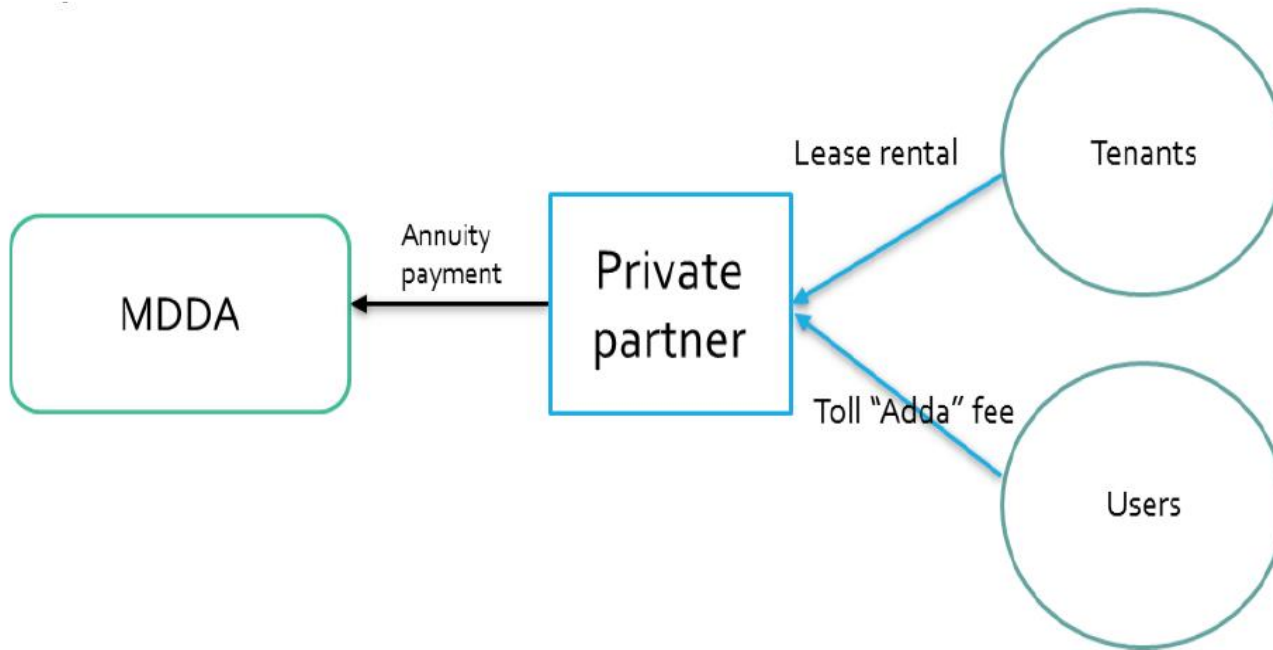


For a booming city with high air pollution and congestion

- Buses are procured, owned, operated and maintained by the private sector
- Government corporation set the bus routes, bus stops and fare structure
- 3 private bus operators
- 5 year BOT
- Built on the city's prior experience with PPPs for bus stands, pay and use toilets

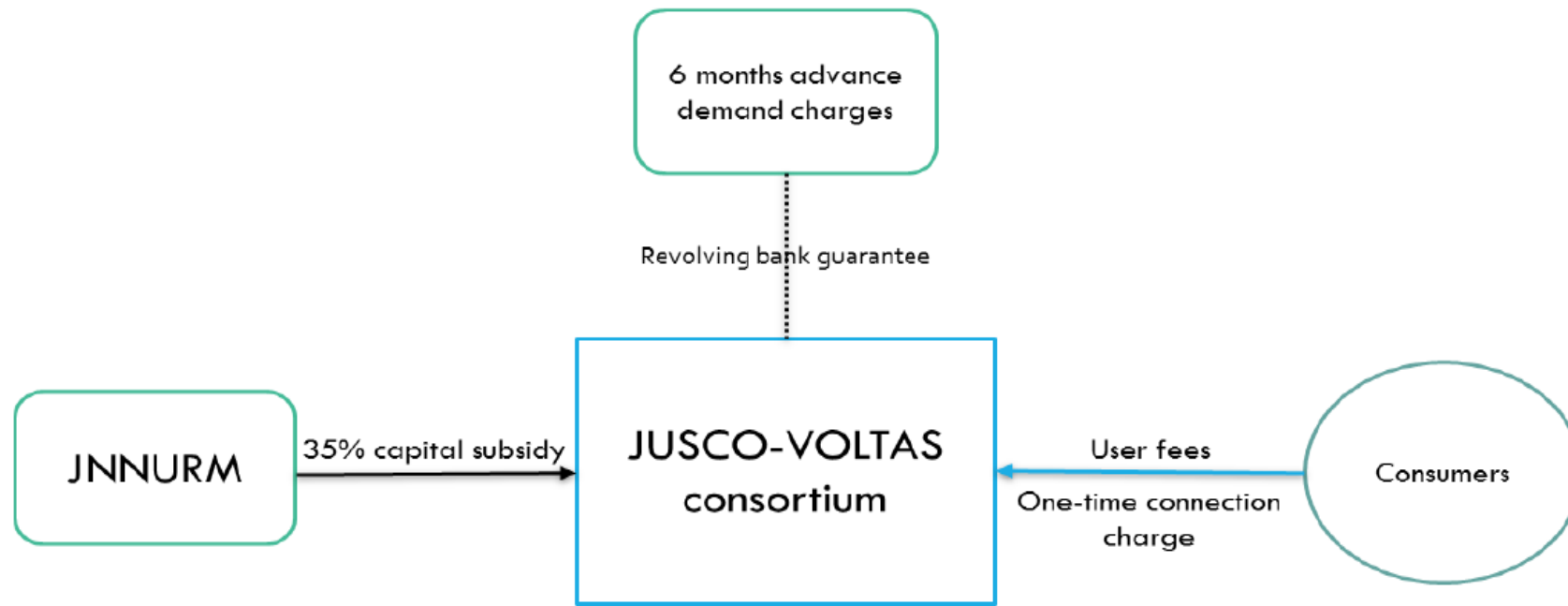
Interstate Bus Terminal in Dehradun

1st ISBT PPP



- Design, finance, build, operate & maintain a modern interstate bus terminal for 20 years, extendible to 30 years
- MDDA (the muni) receives an annuity payment from the private partner for the lease of the land
- Private partner can charge Adda fee from the buses that use the terminal
- Plus earns lease and other forms of commercial revenue and user fees from value added services

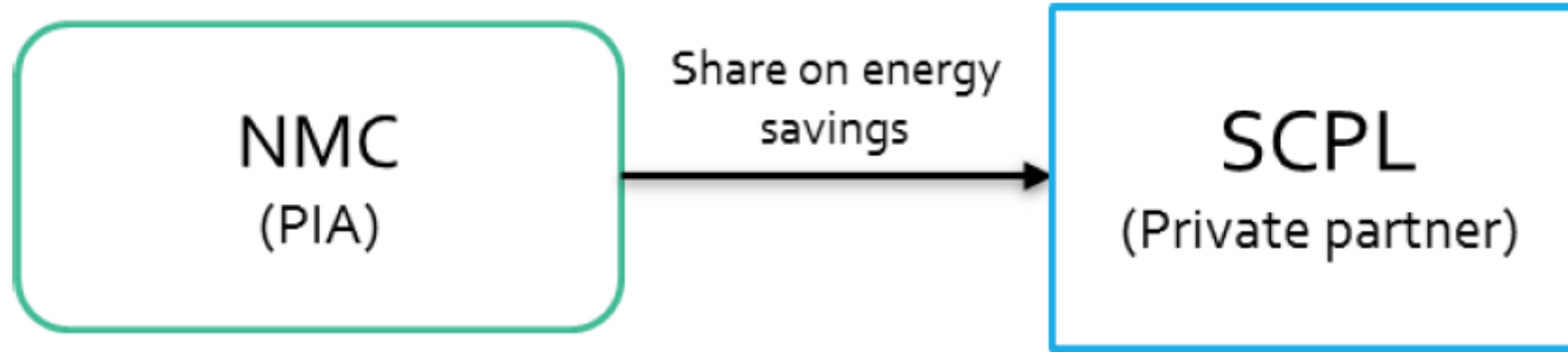
Kolkata Salt Lake Water Supply and Sewerage PPP



To serve a growth center for IT industries in West Bengal

- BOT for a elevated reservoir, 3 km tunnel, 10km of sewer lines, sewage treatment
- JUSCO levies water supply and sewerage charges to premises and can collect 6-months of Demand Charges in advance through a revolving bank guarantee
- Capital subsidy to the private sector made the project financially viable and affordable to the municipality; a win-win for both parties

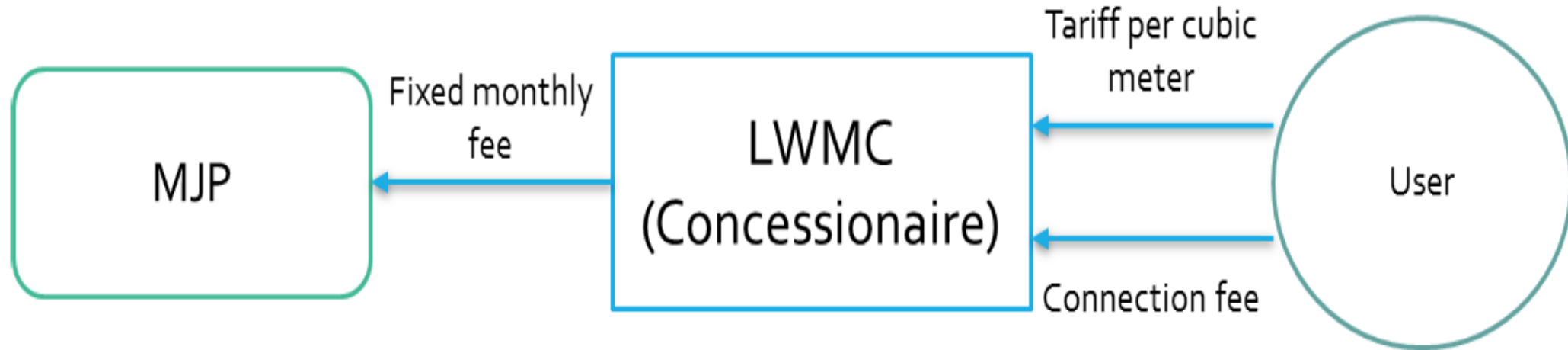
Nasik Street Lighting PPP



Serves a city of 1.2 million to ease power shortages

- Paying for street lighting was one of the city's major costs items
- The private partner is responsible for design, manufacture, supply, install and commissioning energy saving devices including all the required supporting infrastructure
- In return, the city will pay the private partner a percentage of the actual energy savings
- NMC (the muni) entered a tripartite agreement with the private partner and lender
- Reduced electricity usage by 32% p.a. on average, with savings redirected to health, education, etc.
- 5 year BOT

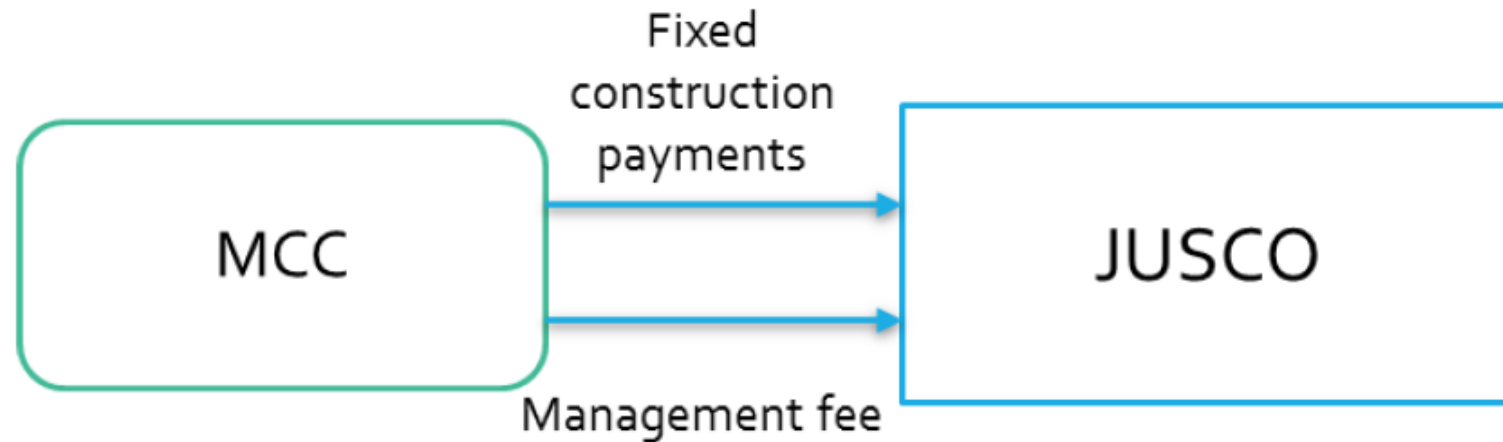
Latur Integrated Water Management Project



A troubled project that highlights the importance of stakeholder engagement

- City lacked the ability to operate and maintain the water supply scheme, faced high non-revenue water (NRW) and low collection efficiency and fiscal challenges
- Private partner was given the right to operate the water supply scheme for Latur City for 30 years
- Included the operation, maintenance and repair of the system
- Required reduce NRW and network expansion
- MJP (the muni) undertook a campaign to educate the population of the new metering policy and the “privatisation” of the water supply
- The project was not successful. An opposition formed, LWMC officers were vandalized
- Due to the strong opposition, the transfer of assets to LWMC did not take place

24x7 Water Supply Project in Mysore City



Envisaged to be a model project in water supply for the whole of India

- Rehabilitation of the distribution system and O&M of the water supply scheme for a city of 1 million; 80% are poor
- 6 year O&M contract
- 52% of O&M expenditures is recovered from the water tariff, the remainder is paid by the city's budget
- Grant funds were obtained to meet capital costs
- Majority of payments to JUSCO were performance-linked; 50% of management fees and 70% of operating costs
- Actual length of network pipelines of 1,910km and connections of 174,000 was far above estimates
- The project was undertaken without political support, a champion or a dispute resolution mechanism
- Delays resulted from the extra works and difficulty in obtaining extra financing

Payment risk

Typical mechanisms used to address payment risk

- Revenue intercept mechanism via escrow accounts or debt service reserve accounts
- Subsidies (with ceiling)
- Separate sewer account distinct from general budget
- State-level guarantees
- Take-or-pay conditions
- Revolving letter of credit for annuity payments issued by Scheduled Banks in India

Sources of Muni Financing for PPPs

PPPs often need government financial support

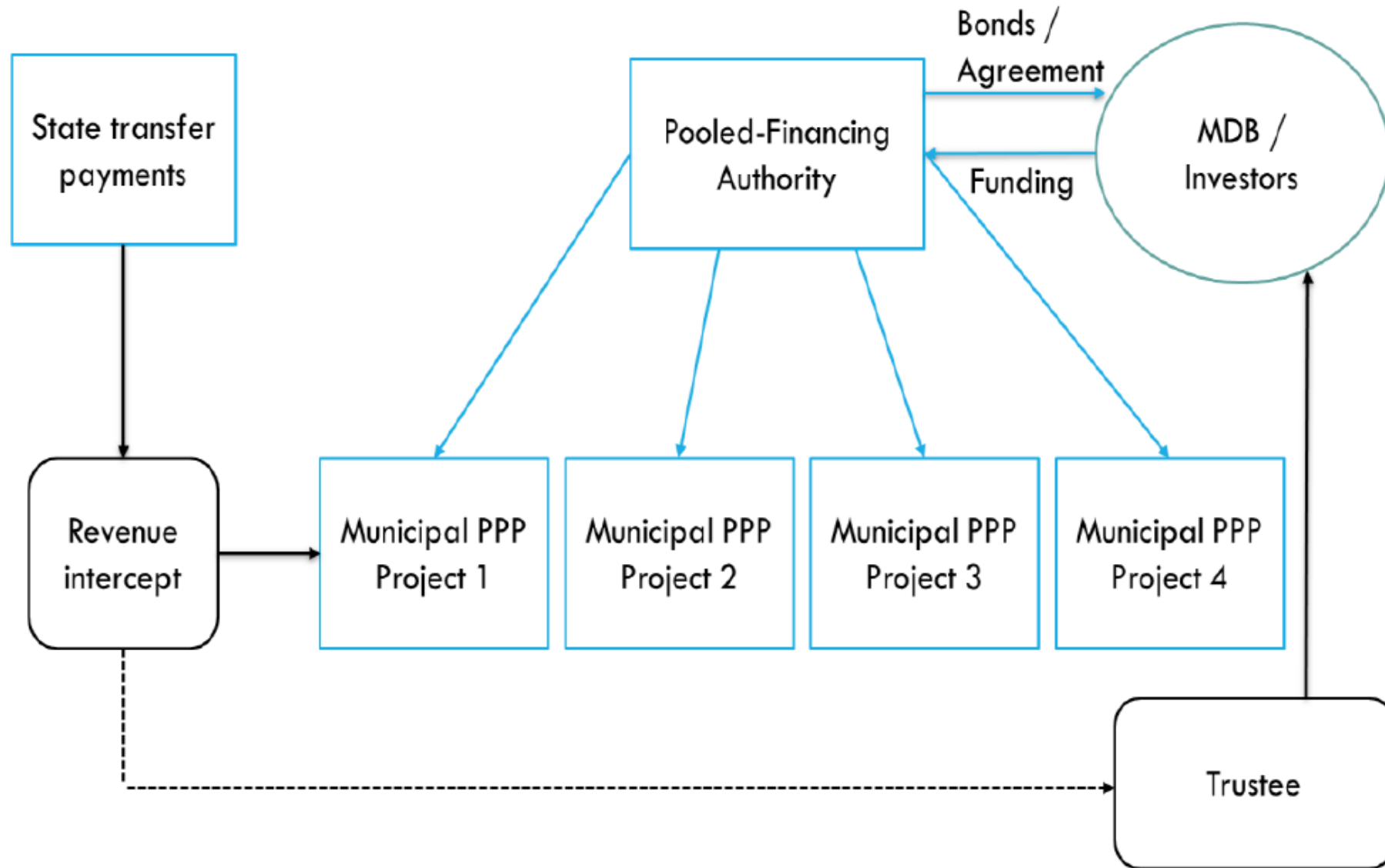
- Direct investment through the municipality's budget (sourced from the national budget allocation as well as from local taxes collected)
- National level funding support (i.e. Viability Gap Funding and the India Infrastructure Project Development Fund)
- Funding support through special programmes/missions (i.e. the JNNURM, AMRUT, Smart Cities Mission, National Mission for Clean Ganga)
- State level funding support (i.e. state level infrastructure funds, PDFs and VGFs)
- Debt financing through the India Infrastructure Finance Company Limited (IIFCL)
- Municipal bonds
- Funding from multilateral partners

e.g. Namami Gange Programme

An Integrated Conservation Mission for cleaning, rejuvenation, and conservation of the Ganga River

- In January 2016, the Government of India approved a “hybrid annuity PPP model” for the development of waste water treatment plants in the Ganga river basin
- The winning concessionaire is expected to put up 100% of the investment
- 40% of which will be reimbursed during construction and upon commission. The remaining 60% will be paid in annuities during the concession period (estimated 15 years) along with O&M
- Several PPP projects have already been implemented

e.g. Development Financial Institution (DFI)



Lessons

India has a robust PPP program, yet its muni PPPs faces familiar challenges

- Lack of Proper Institutional Mechanisms for Implementing PPPs
- Inadequate Incentive Structures
- Poor Project Preparation
- Commitment and Ownership to the Municipal PPP Project
- Limited Access to Capital Markets

Canada's Muni PPPs

Financing Innovations

Building Canada Fund

- C\$1.2 Bln fund which supported projects in the provincial and municipal levels
- A crown corporation created in 2008
- Requires a robust assessment of the project prior to approval of funding
- Supported more than 20 P3 projects, and leveraging C\$6 Bln in capital expenditure within six provinces and territories and 13 municipalities by 2013
- Ceased operations in December 2017

Canada Infrastructure Bank (CIB)

- To invest, and seek to attract private sector (including institutional investors) investment in infrastructure projects to generate revenue while ensuring that public interest is maintained as well as to bolster economic growth
- Can provide sovereign guarantee to loans with ok of the Minister of Finance
- To invest C\$35 billion to infrastructure projects
- Provides capacity support to implementing agencies and M&E

Final thoughts

Muni PPPs make sense

Muni PPPs can be a valuable addition to a country's PPP program

- Proven capacity to deliver municipal services
- Well suited to delivering new and innovative services
- Can bring in expertise and finance that munis do not have
- Can, in some cases, provide a new source of revenue to munis

Muni PPPs share the same success factors as other PPPs

- Munis need the capacity to prepare and implement PPPs
- A robust PPP framework is critical
- Political buy-in and champions are precursors to success
- Many PPPs will require government financial contributions
- There are many examples of how to provide that support well

Sources

This presentation is based on the early results from the World Bank's Municipal PPP Framework Project.

Resources for Municipal PPPs are available from the World Bank at:

<https://ppp.worldbank.org/public-private-partnership/ppp-sector/sub-national-and-municipal-ppps/sub-national-and-municipal-ppps>

Thank You