Making Municipal PPPs Work

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Infrastructure PPPs Guarantees
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
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 project:** 10 years, with a renewal possibility of 10 years.

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

**PPP delivery model:** O&M

**Funding and financing:** Public and Private financing
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
Name of the project: Integral Sanitation of the waste-water of the municipality of Saltillo, Cohauila.

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.
Name of the project: Administrative Complex in Tlajomulco de Zuñiga

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

Sector Shares

Source: Derived from data extracted from https://www.pppindia.gov.in/infrastructureindia
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 an elevated reservoir, 3 km tunnel, 10 km 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, LWWC 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

- 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
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)

State transfer payments

Revenue intercept

Municipal PPP Project 1
Municipal PPP Project 2
Municipal PPP Project 3
Municipal PPP Project 4

Pooled-Financing Authority

Bonds / Agreement

Funding

MDB / Investors

Trustee

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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:
Thank You