

THE ECONOMIC TIMES

PUBLIC PRIVATE PARTNERSHIP

CHALLENGES & OPPORTUNITIES

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A RESPONSE CONSUMER CONNECT INITIATIVE

When private sector's enthusiasm and execution speed is married with power and will of the state, it lays down a red carpet for socio-economic development. Public Private Partnership (PPP), a relatively new funding model for creating public infrastructure, is being adopted rapidly in the country. The Union Government is framing a national policy and has just published the Draft National Public Private Partnership Policy, which is now open for citizens and private entities to provide their suggestions.

With India forecast to see leapfrogging economic development, PPP will come up as a prime funding model. While many state and central departments have started rolling out projects on the PPP model, the society, corporates, and many government officials are yet unclear about it, and in some places even confused.

To clear the air, The Economic Times had organised a conference on Public Private Partnership at Nagpur getting all stakeholders in Maharashtra's second capital. Nagpur Improvement Trust, Maharashtra Airport Development Corporation and Nagpur Municipal Corporation were knowledge partners representing the government, while private entities a'XYKno, a transaction advisor and Vishvaraj Infrastructure Ltd, an infrastructure development company, supported the event.

Nagpur Improvement Trust (NIT) has a mandate of developing around half part of Nagpur city, after being appointed as the Special Planning Authority for Nagpur Metropolitan Area. Pravin Darade (IAS), Chairman, NIT stated that NIT had executed 15 infrastructure projects worth Rs 135 crore on the PPP model. "We have lined up 31 projects worth Rs 645 crore, which are now in various stages of planning or bid preparations. We will invite offers for most of them shortly. I expect that these projects will be up and ready in the next two and a half years."

Saurabh Rao, commissioner of Nagpur Municipal Corporation (NMC), in his presentation said the corporation had planned capital investments worth Rs 16,670 crore, across water supply, waste management, traffic, road, transport, sewage management, among others. The corporation is aiming to have Rs 3000 crore worth of work done through the PPP model, while it has not yet identified the source of funding for more than Rs 10,000 crore. A large chunk of it is available for private partners to participate.

Nagpur is the geographical centre of India; the zero milestone of India is in this city. All major highways NH-7 (Varanasi - Kanyakumari) & NH-6 (Mumbai - Sambalpur - Calcutta) and major railway routes (Mumbai, Chennai, Howrah, Delhi) pass through the city. It is the second capital of Maharashtra and the winter sessions of the state assembly are conducted here. Many central and State Government departments and institutions have zonal offices in Nagpur. Fringe areas like Kamptee, Hingna, Wadi, Khapri, Butibori and Kalmeshwar are places of industrial development in the recent times.

MIHAN or Multi-modal International Hub Airport at Nagpur is a new integrated development underway in the city over 4454 hectares, including special economic zone over 2086 hectares. Expansion of the existing airport is underway, which includes a new 4-km runway and new terminal building over 3 million square feet. Maharashtra Airport Development Com-



From left: SV Chahande Chief Engineer, MADC, Arun Lakhani, CMD, Vishvaraj Infrastructure Ltd., Ajay Saxena, ADB official, Pravin Darade, Chairman, NIT & Jt. MD MADC, Priti Ramakrishnan Director a'XYKno & Sunil Warrier, Resident Editor The Times of India.

Nagpur lines up PPP deals worth crores

Pravin Darade (IAS), Chairman, Nagpur Improvement Trust (NIT) and joint MD, MADC outlines plans at The Economic Times conference on Public Private Partnership at Nagpur. Omkar Sapre reports

pany or the MADC is developing MIHAN. The project was a bit delayed mainly on land acquisition issues. However Mr Darade, also the joint managing director of MADC said that acquisition of the last 143 hectares of the requirement

is underway and will be completed soon. The project will start functioning seamlessly after that. Soon 14 companies will be operating in MIHAN, which includes Boeing, HCL Technologies, Bharat Petroleum, DLF, TCS, Wipro, among

MADC FULLY GEARED TO MEET NEW CHALLENGES

I am glad to know that The Economic Times has organised a conference on 'Public Private Partnership' on 29/09/2011 at Nagpur.

India's strong export performance backed by low cost of production and high quality will continue to support the growth momentum in the country, thereby underlining the importance of increased participation of PPP modal in infrastructure projects. Maharashtra Airport Development Co. Ltd. (MADC) is developing a multipurpose Special Economic Zone (SEZ) in 2086 Hectares at Nagpur along with an International Hub Airport. This mega infrastructure project presents opportunities to private investors to be partners in the project. We have already executed a PPP Project in the Power Sector of the MIHAN Project.

However many new challenges lie ahead owing to far reaching effects that are taking place around the world in terms of quality and technology. I am confident that MADC is fully geared to meet these challenges and present opportunities to all the stakeholders. In pursuit of the objective, we are inviting you to participate in this Mega Project which would earn sizable financial returns. I hope that, with continue policy support from the Government, the media and enterprising companies will not only sustain the growth momentum but also surpass the target set. I convey my thanks to the participants and look forward to successful business in MIHAN.



U.P.S. Madan

U.P.S. Madan
Vice Chairman & Managing Director,
Maharashtra Airport Development Co. Ltd. Mumbai

Time to add a fourth P to Public Private Partnerships : Arun Lakhani

Arun Lakhani, chairman and managing director of Vishvaraj Infrastructure Ltd. (VIL) says for successful PPPs - a win-win model is a must for all stakeholders.

"Time has come to extend PPP to PPPP by adding the fourth P for 'People' in order to evolve partnership in true sense" stated Lakhani in his opening remarks. He deliberated his thoughts on 'Successful PPPs' - A win-win model must for all stakeholders' at the ET event. "I see a great role for PPPs in India's economic development. To sustain 8% growth rate for Indian economy and looking at high urbanisation rate of Indian cities, PPP is a big market place, he said.

In a PPP project structure all stakeholders are ready to take some risks provided they are assured of rewards. Government offers its assets to the private sector and expects private finance and efficiency as reward. Private sector invests in public assets and expects reasonable returns on investment along with sound contractual provisions. People bear hassles during project implementation phase and expect better customer experience through improved service levels. Talking about challenges faced by developers, Lakhani referred to poor finan-

cial bankability and weak contractual framework for some PPP projects.

He also said that PPPs have given an opportunity to appreciate changed perspective. Elaborating on the topic, he described the transformation that happens in the mindset of developers from 'small contracts executed as contractors' to 'long term PPP contracts executed as co-owners'. In a long term performance based PPP contract, there is an inherent mechanism that makes developer accountable and also motivates him to provide a quality infrastructure. He bluntly stated that the contractual conditions must be very clearly spelled out and there should not be any scope for maneuvering by private operator. It brings bad name to the developer fraternity of which he is a part.

Sharing his experiences with PPP projects, Lakhani cited some innovative PPP contracts. He talked about MAHAGENCO STP contract at Koradi thermal power station which through innovative structuring not only resulted in reuse of water but also saving of water for the citizens of Nagpur. Referring to Nagpur 24x7 water supply contract as an example of another innovative contract, he explained the goals of this contract. One

of the important goals is to convert current intermittent water supply to continuous water supply in a phased manner over a period of 5 years; other objectives being offering better customer service, keeping pipes pressurised to ensure healthy water supply and checking leakages. He also cited a classic example of Yeola town development as a part of BOT Road contract and how it helped winning over the people of town bringing down natural resistance for toll road project.

Lakhani talked about some possible PPP contracts in municipal sector that can provide solutions to some of the long waiting problems. He suggested offering city roads to developers for longer terms of 20 to 25 years.

To summarise his speech, he reiterated mindset change that automatically happens from 'short term contractor' to 'long term co-owner' of the developers in case of PPP contracts. In his concluding remarks he emphasized a need to execute restrain by introducing one more 'P' for patience. Quality implementation takes time and it is anxious time for all the stakeholders till the time the facility is built. However, there is a need to be patient, as any change for good has to wait.

Transaction advisors must for PPP

PPP projects need a transaction support, which is the financial structuring of any PPP project. It starts from conceptualisation of a project, which can either be done by the government or a private partner can identify a project and approach the government. If the government feels the need of the project, it appoints a transaction advisor to conduct feasibility study, on whether the project is economically and socially viable. Success of any PPP project is decided by its technical, financial, and legal aspects, which has to be backed by an excellent sectorial knowledge & expertise. Finally, all this has to be balanced on a robust financial model and contractual agreement between the public & private agencies.

Transaction advisors need to have the domain knowledge. At times the project is strategically viable, at times it is economically viable, so the government takes a call on it. Now the government does not have enough funds, so private finance is arranged and the transaction advisor does the financial structuring on how the funds will flow, and against the investment, three roles, technical, commercial and legal study financial and

compliance. Role starts immediately after the conceptualisation, feasibility, financial structuring, bid process management after which the government enters into an agreement with the private party. The role of transaction advisors ends at this point.



R VISHWANATH IYER
Co Founder, a'XYKno Group



Delegates networking during lunch.

others. The project is open for companies willing to set up operations here, with land in SEZ available at Rs 60 lakh per acre with a 1.5 FSI/FAR, to be allotted on first come first serve basis. Open and international bidding process will decide the land price in the non-SEZ zone. Mr Darade stated that the MADC is open for private participation in the development of MIHAN, where MADC will pitch in with equity participation 26% to a maximum of 49% inclusive of land, and ensure approvals and clearances.

The Maharashtra government is also in the process of setting up a guideline framework for PPP projects in the state. The Asian Development Bank, of which India is a founding member and its fifth largest shareholder, has given a grant to Indian government to support PPP and also sent its officials to work with the state governments. Ajay Saxena, an ADB official, works with the Maharashtra government, to provide guidance support to various state departments. Mr Saxena, who was present at conference organised by The Economic Times, guided the participants on the implementation of PPP projects and most importantly dispelled confusion and myths.

He stated that in PPP projects, the private companies are not contractors, but co-owners, sharing equal authority and responsibility. It is also not privatisation in any sense, he said. He however cautioned that the for effective implementation, the public sector has to retain the responsibility of planning, management and regulation of public service provision, while the public service supply has to be handed over to the private sector. "The public sector should be very diligent in preparing the contracts and setting the legal and regulatory framework. The contracts should also specify well defined exit routes and effect of termination. The monitoring should also rest in the hands of the public sector with right to penalise or reward the private entity for underperformance or over performance. The private partner should get due recognition and the contract should have provision for re-negotiation after certain period. However, it is paramount that no projects should be undertaken unless there is a clearly identified public need," Mr Saxena said.

Echoing his perspective, Arun Lakhani, chairman and managing director, Vishvaraj Infrastructure Ltd said, "Time has come to extend PPP to PPPP by adding the fourth P for 'People' in order to evolve partnership in true sense." He stated that developers should change their mindset from 'small contracts executed as contractors' to 'long term PPP contracts executed as co-owners'.

While the government and private developers are the executors in a public private partnership, their seamless integration is brought about by transaction advisors, who not only advice the government agencies on the implementation, but also contribute with the feasibility analysis of the project. The a'XYKno Group, empanelled with some state governments, is advising certain projects in Nagpur, along with other areas. R Vishwanath Iyer, Co Founder, a'XYKno Group, said, "Success of any project on Public Private Partnership (PPP) basis rests on three legs of a tripod - Technical, Financial & Legal. Essence of any PPP project is to offer a win-win situation to all the stakeholders.



PRAVIN DARADE
(IAS), Chairman,
NIT & Jt. MD MADC

The project is open for companies willing to set up operations here, with land in SEZ available at Rs 60 lakh per acre with a 1.5 FSI/FAR, to be allotted on first come first serve basis.



AJAY SAXENA
PPP Expert, GoM

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ARUN LAKHANI
Chairman and
MD, Vishvaraj
Infrastructure Ltd.

Developers should change their mindset from 'small contracts executed as contractors' to 'long term PPP contracts executed as co-owners.'



PRITI
RAMAKRISHNAN
a'XYKno Group

Success of any project on Public Private Partnership (PPP) basis rests on three legs of a tripod - Technical, Financial & Legal.

All types of projects can be done on the PPP model



A young delegate clears her doubts from the experts.

All types of projects, from hospitals, roads, parks, airports, to schools etc can be done on the PPP model. It is important for everyone to understand that in PPP projects, it is the government money that will be spent, so it has to be used responsibly. The public sector's responsibility is to ensure political commitment to the project. It should provide all information required to take informed decision, reduce risks and uncertainty in the projects. The state should provide support related to land acquisition, grant, regulatory approvals and also set up the legal and regulator framework. The government, in all cases, must ensure the commercial viability of the project and structure the project to include all possible revenue streams. It can also explore annuity based options in social infrastructure projects. The private entities must keep in mind the welfare mandate of the government in all PPP projects they participate in. There are likely to be disputes during the implementation of the projects, but both sides should ensure that they working despite the dispute - just like family.

The common reasons of failure are poor legal framework and enforcement, weak institutional capacity and PPP strategy, unrealistic revenue and cost estimations, lack of thorough financial and economic analysis and inappropriate sharing of risks. Public resistance, because willingness to pay is not properly assessed, is also a major reason for failure. Both public and private parties should mitigate these risks with adequate planning.

Ajay Saxena,
Asian Development Bank and
PPP Expert, GoM

Spearheading Nagpur development

The State Govt. of Maharashtra is making all out efforts to accelerate the pace of development and invite investments in the State both from the country as well as Foreign Direct Investments (FDI).

Nagpur is the second capital of Maharashtra and has strategic central location in India as well as the international aviation routes. It has connectivity to all parts of India, both by National Highways as well as main trunk rail routes and also air connectivity. It has excellent roads, water, power and telecommunication infrastructure.

In order to tap this potential, Govt. of

Maharashtra has decided to develop a composite project called 'Multi-Model International Passenger and Cargo Hub Airport at Nagpur' (MIHAN). The project comprises of developing the existing domestic airport of Nagpur as an international passenger and cargo hub airport, along with a Multi Product Special Economic Zone (SEZ), which is abutting to the boundary of the airport.

Maharashtra Airport Development Company Ltd. (MADC) is Special Purpose Company constituted by the Govt. of Maharashtra for implementing the Multi-Modal International Hub Airport at Nagpur (MIHAN) as per recommen-

dation of Techno-economic feasibility study (TEFS) report prepared by consortium of International Consultant lead by L&T Ramboll and also to develop the various other airports, (not belonging to Airports Authority of India (AAI) and Indian Air Force (IAF) in the state of Maharashtra to provide air connectivity between the various important Urban centers Head Quarters and also the capital of the State.

MIHAN, SEZ (Free Trade Zone) is one of the largest Multi-product SEZ in the country. This SEZ has got the 'Formal Approval' for about 2086 Hectares of land from the Ministry of Commerce,

Govt. of India.

The proposed Special Economic Zone adjacent to the International Hub Airport will be supported with world class infrastructure facilities. Out of the 2086 Hectares of land about 1472 Hectares land is set aside for Processing activities and 614 Hectare of land is for Non - Processing activities. As a developer of this SEZ, MADC is providing state of the art infrastructure which includes a network of 6,4,3 lane roads, Rail & Road Terminal, captive power plant of 246 megawatt capacity including 25 megawatt DG genset as a backup, optical fibre cable network for voice and data connectivity, bacteria free drinking water with a provision of supply of water for both domestic and non-domestic purposes, and supporting services like the International School, Health City,

residential area, etc.

In the Special Economic Zone land is being allotted to organisations for setting up their manufacturing / service units for manufacturing goods, rendering services, processing, assembling, packing, repacking, etc. for exports.

Opportunities available to the investors:

- Land is available inside the SEZ at the most competitive rates for commercial purpose.
- Plug and Play offices are immediately available in the Central Facility Building within the SEZ area.
- Investments in the MIHAN project area other than processing zone of SEZ is based on competitive international bidding.

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