

ADB's URBAN SECTOR PROGRAM AND PPP INITIATIVES IN ADB ASSISTED PROJECTS IN INDIA

Presented
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ADB URBAN STRATEGY

TYPICAL URBAN LOAN

OVERVIEW of URBAN PORTFOLIO

URBAN PIPELINE

**PPP INITIATIVES IN ADB ASSISTED
PROJECTS**

(Based on ADB's country strategy and India's 10th 5 Year Plan)

GOALS:

- Improve social, economic, and environmental quality of life in urban areas
- Focus on poor and low-income communities

KEY OBJECTIVES:

- Support demand-driven investments in urban infrastructure and basic services
- Support targeted poverty alleviation interventions
- Support policy reforms to improve governance
- Support capacity building to improve urban management

Physical Scope

- Water supply and sanitation including flood control
- Solid Waste Management
- Urban roads and related transport infrastructure
- Municipal services; new housing sites, markets, bus stands, public toilets
- Tourism: municipal parks, restoration of heritage sites
- Resettlement of project affected persons
- Slum Rehabilitation:
 - water supply, low cost sanitation (individual or public)
 - access roads and drainage
 - community building and training facilities

Direct Poverty Alleviation

- Upgradation of low income settlements
- Community consultation in planning and implementation
- Community awareness and participation program
- Community facilitation and mobilisation through NGOs
- Formation of self help, savings and credit groups
- Vocational training and livelihood development for women and uneducated slum youth
- Capacity building and empowerment of community based organisations
- Health and hygiene awareness, informal education, awareness on HIV/AIDS and alcoholism/drugs

Policy Agenda (in addition to ADB's Std. agenda)

- Improve management of municipal services and infrastructure
- Modernise and computerize municipal records, accounts, budgets
- Improve revenue generation; billing and collection, property tax, water tariffs, sewage and solid waste fees, various license fees
- Use of modern planning and management techniques such as GIS and MIS
- Improve governance through:
 - asset management
 - service delivery
 - revenue maximisation
 - transparent accounting and auditing system
 - grievance redressal
- Ensure sufficient budget to O& M of existing and new facilities

LOAN COMPONENTS cont'd

Lending Modalities

- ADB to INDIA (DEA, MoF) at LIBOR rate of interest with repayment period of 25 years with 5 years grace period
- MoF transfer the money to States - 30% Grant & 70% Loan at commercial terms
- MoF to Special Category States – 90% Grant & 10 % Loan at commercial terms
- State to ULB's through On Lending agreements at negotiated terms, varies from state to state
- ADB does not disburse loan funds in advance
 - but on reimbursement basis (after completion of work)

Physical Status

Currently 6 loans delegated to INRM:

- two loans (one completed and one ongoing) in Karnataka covering 6 and 10 towns (4 million beneficiaries)
- Rajasthan covering 6 towns (6 million beneficiaries)
- West Bengal covering outlying outer districts of Kolkata (3 million beneficiaries)
- Gujarat Earthquake Rehabilitation Project covering 14 major towns
- Madhya Pradesh covering 4 Towns

Total Value-about \$1.88 billion with \$1.2 billion in ADB loans

OVERVIEW OF THE PIPELINE PROJECTS

India Program

- 2005 - Kerala Sustainable Urban Development Project
- 2004– Jammu & Kashmir Multi-Sector Infrastructure Rehabilitation Project
- 2006- Jammu & Kashmir Urban Development Project
- 2006 - North East Urban Development Project-I
- 2006- Karnataka for 18 cities and towns-III

Similar to the ones already underway, with loan amounts from \$200 to \$250 million

Others Being Considered

- Rajasthan -II
- Uttaranchal- Dehradun and others
- North East –II(Assam)

Major Policy Reforms

- Accounting reforms being carried out in ULB's of project towns, and being mainstreamed into 41 major towns in Karnataka and in Kolkata
- Increase in property taxes and water tariffs have started, though modest in amount. Addition of new fees for sewerage on water bills
- Improved efficiency of billing and collection underway, but some resistance by tax payers and local politicians
- Meeting O&M costs in smaller towns continues to be a problem

Objective of Private Sector Participation (PPP)

- Management of utilities with optimum resources
- Guarantee acceptable and designed quality of service to the users
- Increase the life of assets through better O&M practices, a major weakness in current situation
- Must address low income and poor consumers basic needs
- Improve revenue generation in ULB's to a point where private investors are willing to finance improved services without state guarantees.

ADB's Outlook

- “Early days” for PPP in Urban Sector in India
- ADB supports private sector participation specially in O&M of assets created under the ADB financed projects
- Inherent lack of capacity for O&M among the ULB's and resource constraints have lead to the suboptimal utilisation of water and sewerage utilities
- Presence of non transparent subsidies puts undue pressure on the finances of the ULB's
- ULB's managing assets on non commercial basis
- Limited exposure to modern and efficient asset management and O&M practices in ULB's

ADB's Initiatives in Contract Management

Rajasthan Urban Development Project(RUIDP)

- Bisalpur – Jaipur Water Supply project
 - A 400 Mld bulk water system with a cost of US \$120 million to supply potable water to City of Jaipur and surroundings
 - The contractor will built the system and operate the same for a period of five years .
- For other contracts including of STP,WTP's Pumping Stations RUIDP have followed the same principle.

ADB's Initiatives in Contract Management

Karnataka Urban Infrastructure Development Project(KUIDP)

- Ramanagaram and Channapatna Water Supply Scheme
 - A 12 Mld bulk water system to benefit the 120,000 residents of two towns.
 - Karnataka Urban Water Supply and Drainage Board the owner of the scheme appointed a private operator for O&M which has resulted in remarkable improvement in supply of water
- Similar initiatives are underway for water supply and STP's in Mysore
- Composting plant in Mysore was built on BOO basis- ULB is delivering the solid waste, free of cost to the operator, who is paying a fixed lease fee and a percentage of total sale of compost

Options for PPP in Urban sectors (KUIDFC)

- Performance Based Deferred Payment Structure (PBDPS)
 - Payments are made only for services that meet desired levels and only on demonstration of meeting parameters
 - The premise for performance based contracting is to pay only for achieved performance and quality targets
 - It involves procurement of service and not of works alone
 - Entails transferring risks to private contractors
 - Will require major reform in revenue generation and budgeting at ULB level

Options

- Performance Based Deferred Payment Structure (PBDPS)
 - Designed to allow developers to utilise their own designs and methodologies to meet contracting agency's service/performance targets, and to achieve appropriate performance quality levels
 - The payments are typically spread over the life of the period of operations, though would be structured to match developer/contractor to recover capital cost in first few years
 - The annuity model of payments, successfully adopted by the National Highways of India (NHAI), in its road expansion programme is one variant of PBDPS.

Options

- Principal advantages of PBDPS are:
 - Ensuring achieving performance targets
 - Transferring risks to the private sector to take advantage of its efficiency
 - Addressing the key issue of operations and maintenance
 - The ULBs are not required to raise the entire construction cost upfront, but could allow the developer to raise them more efficiently and recover the same over a longer tenure
 - ULB's will need to enhance revenues, set budgets, perhaps establish escrow accounts to ensure budgeted funds for O&M will be available

Options

- ADB financing of PBDPS contract will :
 - Provide “comfort” to the contractors and their financiers
- May be tested under KUIDP – III
- Require restructuring of current loan modalities
- ADB open for suggestions, but subject to DEA concurrence

Financing Mechanism for PPP Projects

- State level Urban Infrastructure funds similar to Tamil Nadu & Karnataka, as being setup in MP & Kerala may be considered
 - Formation of a pool of fund incorporating financing from Central Govt., State Govt., Funding Agencies, issuing bond etc.
 - ULB's will borrow from the pool purely on commercial basis considering return on investment and their credit rating
 - This fund will provide “comfort” to the contractors and their financiers to take the risk for the capital investments required on the front end
 - Fund would also “backstop” the O&M budgets

State level Regulatory Requirements for Urban Utilities

- Purpose
 - To make Urban Utility sector sustainable.
 - To make investment in urban infrastructure financially viable, thereby attracting private initiative
 - Will give a level playing field to the investor, operator, ULB's and consumer
 - To reduce the "Political risk"- i.e. change in government-change in policy
 - Run the utilities on commercial basis.

State level Regulatory Requirements for Urban Utilities

- Function
 - Should be run by professionals with representatives from all stake holders.
 - Should give sufficient time for consumer adoption process
 - Services must improve before asked to pay more
 - Set tariff initially on actual cost of production and distribution then under the influence of market demand and supply; also adopt differential pricing system considering customer segment(social good vs. economic good)
 - Independent from political influence
 - Should be transparent about it's function

THANK YOU