

# **Public-Private Partnership Approach for Smart Cities**



# Essential elements of a PPP – also applicable to Smart Cities

- PPPs are commercial transactions between a public and a private party by which the private party:
  - performs a function traditionally performed by the public sector for an extended period of time;
  - assumes related construction, commercial, and operational risks; and
  - receives a benefit in exchange, either by way of public authority paying from its budget, or user fees, or a combination of these.

# Level of risk borne by pvt partner depends on type of contract

- Management contract - private party shares minimal risks with the public sector
- Lease contract – in addition, private parties take on operating and collection risks
- BOT contract - private partners also take on investment and financing risks

# Best practices in PPPs

- Competitive bidding is necessary to ensure ***competition for the market*** and thus value for money, besides ensuring transparency
- Two stage bidding process
- Single bidding parameter at the RfP stage
  - Lowest subsidy that the government must provide (Viability Gap Funding in India)
  - Lowest annuity payment (BOT – annuity projects)
  - Lowest initial tariff

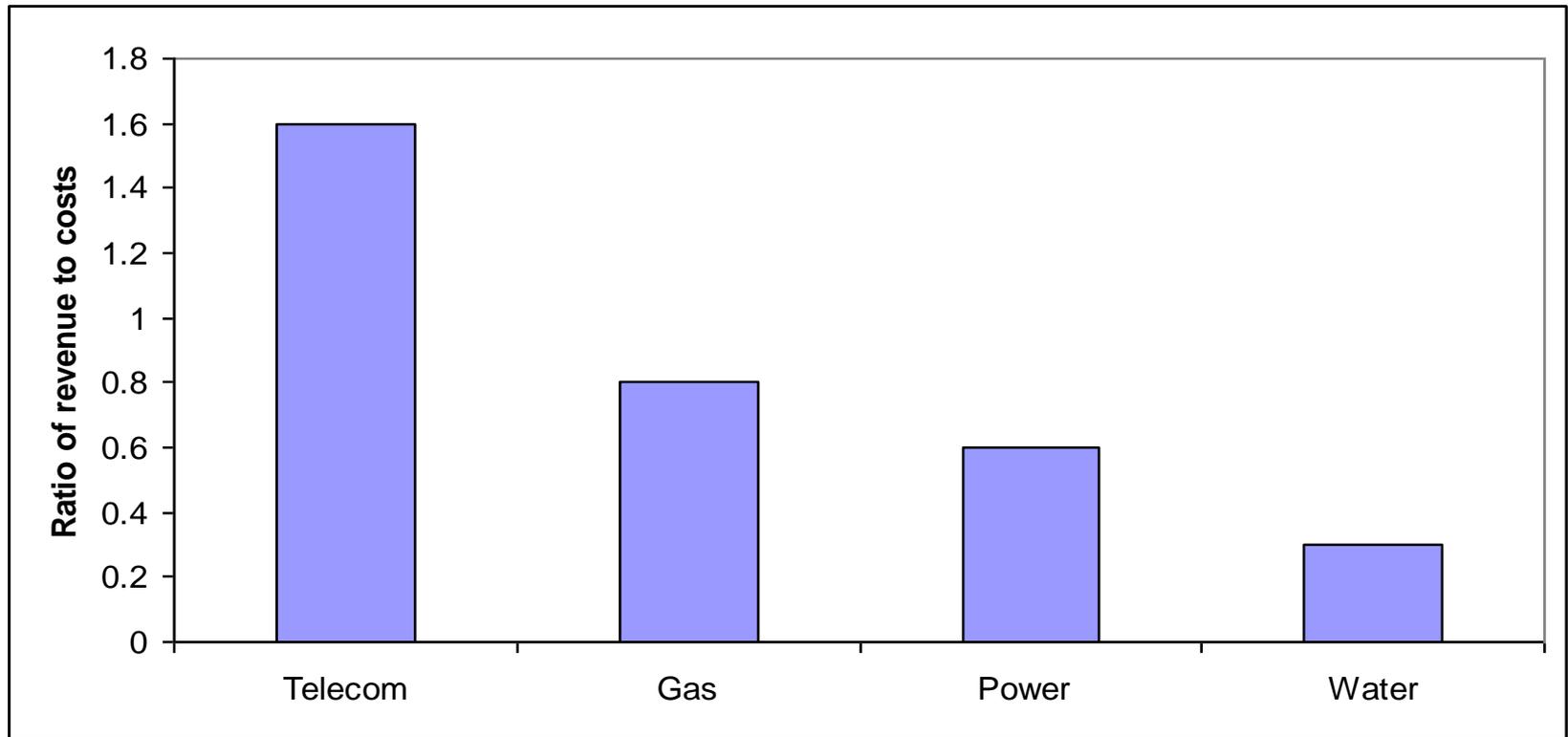
# PPP in Water and Sewerage sector



# Prevalence of PPPs in Water and Sewerage sector

- Water is unique among infra sectors → it is essential to life
- 85% of water utilities are publicly owned and controlled
- Inherently a difficult sector to enter for the pvt sector because of low cost recovery (~ 20%) and high failure rate

# Low Cost Recovery in Water Sector



# Water and Sewerage – Challenges and Solutions at the ULB level

- **Uncertainty about condition of assets:**  
This may increase risks and project costs →  
Enhanced Monitoring Period
- **Employee resistance** – conditions of service should not deteriorate
- **Decrease in NRW** may be a win-win for most stakeholders
- **Political economy of water tariffs** →  
Connection instead of consumption subsidies

# Gov support to ULBs for entering into PPP arrangements

- Grant support that can be used as equity
- Model Concession Agreement would be developed covering:
  - Risk allocation between public and private sectors
  - Tariff indexation to inflation to mitigate some risks
  - Performance standards and Coverage targets
  - Would provide for ULB level flexibility

# Manila Water Company

- Metropolitan Waterworks and Sewerage System - government corporation owned the water utility and its assets
- Private concessionaire chosen through competitive bidding (1997); Bidding parameter - lowest initial tariffs
- Concession period – 25 years
- Targets for improvement in service coverage, water quality, service quality and reduction in NRW specified in the contract

# Success indicators

Indicator	Before PPP (1997)	After PPP (2014)
24-hour potable water supply coverage	26%	99%
Number of customers	3.1 million	6.3 million
Non-revenue Water (NRW)	63%	11%
Volume of water delivered to customers (per day)	440 million litres	1.2 billion litres

# Summing up - Lessons on structuring PPPs

- Have the risk allocation right
- Provide sustainable revenue streams to the private sector
- NRW and AT&C loss reduction would keep tariff increase manageable
- State coverage targets, performance standards, NRW reduction target in the contract and hold PPP operator accountable



**Thank You**