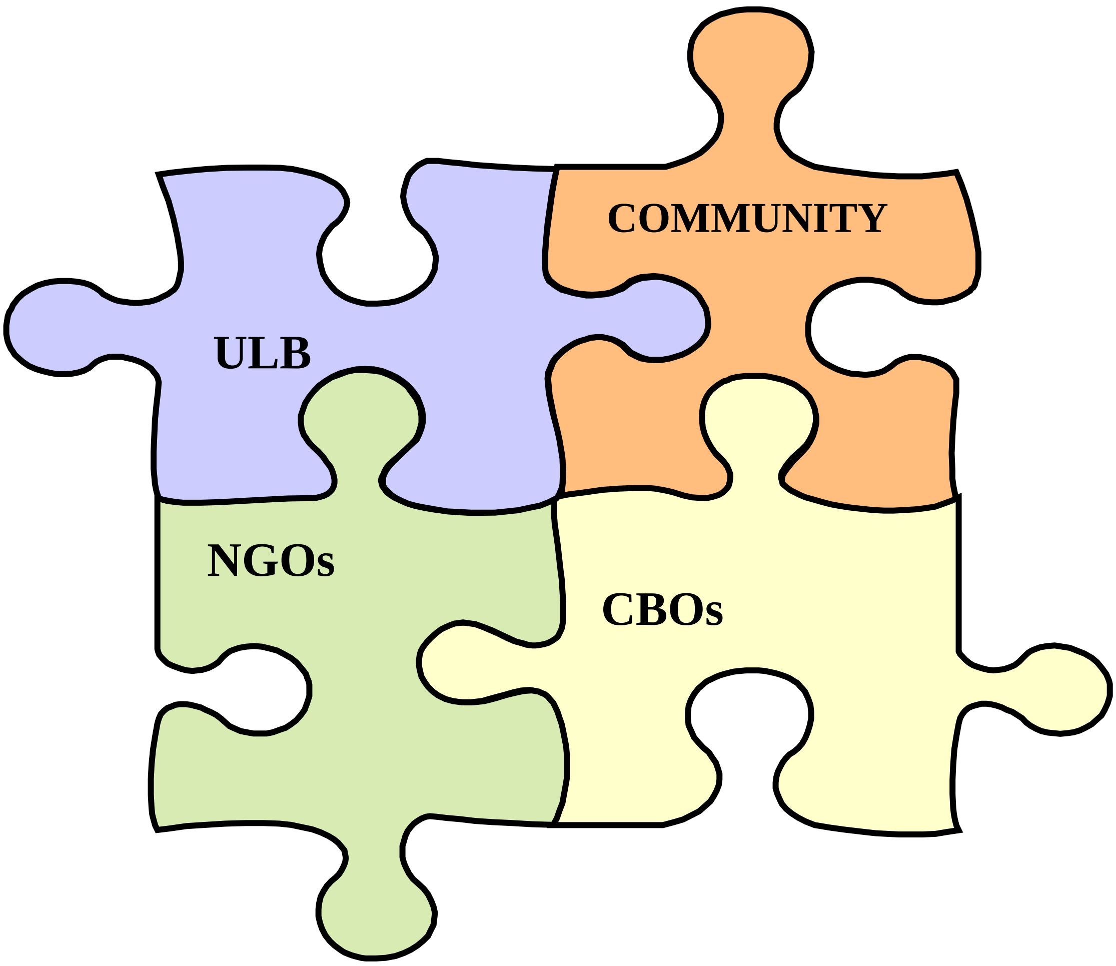
TRAINING MODULE
ON
PUBLIC PRIVATE PARTNERSHIP
For
PROVISION OF SERVICES
For the
URBAN POOR



REGIONAL CENTRE FOR URBAN & ENVIRONMENTAL STUDIES, LUCKNOW

(Established by Ministry of Urban Development, Govt. of India)

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FOREWORD

Increase in urbanization has led to increase in pressure on the basic services and infrastructure. The local governments are unable to fulfill the rising demands of citizens for better infrastructural basic services. The urban local governments are increasingly constraint with the lack of funds and expertise to meet the rising demand. The situation of urban poor is even worse. The urban poor have remained deprived even of the basic infrastructure and other facilities and the urban local governments are able to due little to meet the demands of the urban poor.

The above situation has led to rise in the concept of public private partnership in urban services. The PPP can is a tool through which the services could reach the unserved community. The current scenario requires framing of suitable pro-poor Public Private Partnership strategies through market-viable options for reaching the poor.

The RCUES is thankful to the Ministry of Housing & Urban Poverty Alleviation, Govt. of India for entrusting the task of module preparation on such an important aspect. We hope that the present module will help the urban functionaries and other stakeholder in understanding the concept of public private partnership and the role that it can play in providing better services to the urban poor.

With best wishes,

25th July, 2008

Nishith Rai
Director
RCUES, Lucknow

PREFACE

Urbanization is considered to be sine-qua-non of economic development. In recent years, most of the developing countries, in a bid to have fast economic development, have also experienced galloping urbanization and their pace of urban growth has been truely dramatic. This spectacular growth rate of urban population along with the urban bias in the development strategies has brought in its wake multifaceted problems, viz. over crowding, slum formation and above all urban poverty, which till recently was considered as fallout of the rural phenomenon. But now since growing urbanization is making urban poverty increasingly an urban phenomenon, an understanding of the former becomes indispensable in order to have a thorough insight into the complex dynamism of the latter.

Public Private Partnerships (PPP) has emerged as an alternative for the basic infrastructure and services worldwide, not only for financial reasons but also because of benefits of implementing PPPs projects. Private sector institutions have emerged as important players on the development scene in the last two decades. Their emergence as an active development entity is widely perceived to be a response to the failure of the State and urban local governments in providing effective and efficient basic social services.

Today there is much greater general recognition and acceptance than ever before among all stakeholders, including Government, the society at large, and donors as regards the role of the private sector institutions in promoting participatory, equitable and sustainable development. The role of Public private partnership becomes even important in providing services to the unserved community. This has resulted in a growing trend towards PPP in development that has, in turn, led to an increase in activities of NGOs and civil society organizations.

The failure of public agencies to meet the needs of the poor, and the success of certain self help projects resulted in NGOs being seen as alternatives to, or even substitutes for, the public agencies leading to emergence of Partnerships for urban poverty alleviation between nongovernmental organizations (NGOs), community-based organizations (CBOs), and local government. Urban poverty alleviation programmes initiated by central governments and funded by bilateral and multilateral agencies calls for the participation of NGOs and CBOs.

PPPs can be a vehicle for providing services to the "under-serviced" group. This can be achieved by providing private sector with incentives to reach the unserved poor. But suitable pro-poor PPP *strategies are required to be identified and implemented with market-viable options for reaching the poor.*

This training module aims to provide an insite to the urban functionaries and other stakeholder in understanding the concept of public private partnership and the role that it can play in providing better services to the urban poor.

We are thankful to the Ministry of Housing & Urban Poverty Alleviation, Govt. of India for encouraging us in taking up the above assignment. We express our special gratitude to Dr. H.S Anand, Secretary, Ministry of Housing & Urban Poverty Alleviation, Govt. of India. Our special thanks are also to Dr. P.K Mohanty, & Shri S.K.Singh, Joint Secretary, Ministry of Housing & Urban Poverty Alleviation, Govt. of India for their constant support and encouragement to our Centre. Lastly I express my gratitude to our Director, Prof. Nishith Rai for his motivation & support in all my endeavors.

25th July, 2008

Dr. Rajeev Narayan,
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PUBLIC PRIVATE PARTNERSHIP FOR PROVISION OF SERVICES FOR THE POOR

Urbanization is a global phenomenon experienced by developed as well as developing countries. However, rapid urbanization has resulted in deterioration of the physical environment and quality of life, caused by increasing stress on physical infrastructure and services and the widening gap between the demand and supply of essential services. Water, transport, housing, education, electricity, health and sanitation are some of the major issues of concern. The infrastructure to meet the emerging civic demand calls for huge investment[1]. Symptoms of urban unrest and decay seem manifested in the changed context, the indicators of measuring the quality of life in urban areas have also changed. The problems of urban poor are even worse as they are starved of even basic amenities, which is a major concern to the overall rising demand for improved urban services & infrastructure.

Governments worldwide understand that adequate infrastructure is needed for sustained economic growth and for reducing poverty. Infrastructure is also critical to the provision of basic services such as water, electricity, sanitation, transportation, education and health. Because of its importance, a substantial portion of government resources have traditionally been allocated to meeting infrastructure needs - often entailing significant public debt from both domestic and external sources. Despite the positive externalities derived from infrastructure improvements, such debts are being seen as a major economic burden by countries worldwide.

Public Private Partnerships (PPP) is becoming a popular alternative for the provision of infrastructure services worldwide, not only for financial reasons but also because of experience in demonstrating many other benefits of well executed PPPs. This further becomes important in case of provision of infrastructural / basic services to the urban poor.

The India's economic and technological transitions have profound impact on the functioning of government. The main consequences of this transition are likely to[2]:

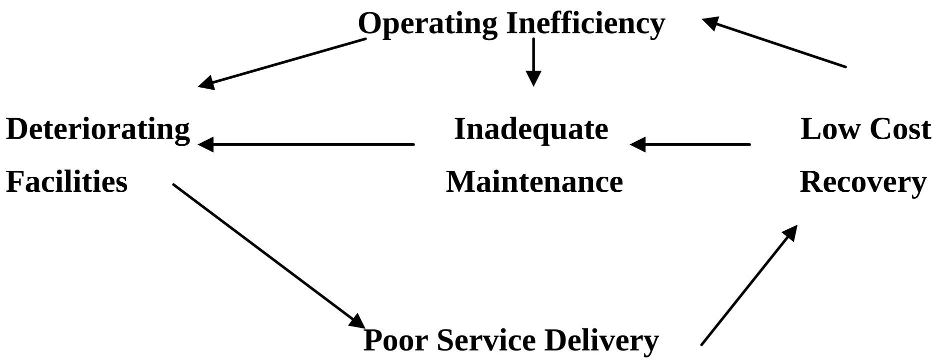
- Devolution of power to local bodies will continue at an accelerated rate, Pressure from the grassroots will increasingly supplant governance from the top down.
- Local communities will come to depend less on state and Central government action and more on their own initiative and organizational capacity.
- Financial devolution will give local bodies more authority to levy taxes and greater control over the use of local natural resources. It will also make them increasingly responsible for financing local infrastructure.
- People at the local level will be more directly involved in setting priorities for distribution of resources and managing projects.
- Government agencies of all types at all levels will be more responsive and accountable to the public as customers.
- Mechanism will be evolved to increase transparency and reduce corruption.

- E-governance will prove responsiveness and reduce corruption in some areas. Computerization of information systems coupled with downsizing, higher recruitment standards and stricter discipline will increase administrative efficiency.
- The educational, technical and professional qualifications of political leaders will rise.

The interventions at the Local Government level are strategically linked to the larger National/State development objectives, as without achieving good governance at the cutting edge i.e. ULB level both National and State Governments cannot hope to achieve their development objectives.

The issue of privatization has attracted much attention in recent years reflecting on worldwide interest in reducing role of the state and enhancing scope of private ownership and private sector. The change of ownership from the public sector to private sector may be called privatization. The role of government is now largely becoming that of 'facilitator' and 'regulator' of development. The changed paradigm of the public sector now is in providing public goods and services without necessarily producing them. The government has now realized the need to release latent energies and stimulate private initiative in various facets of development process.

The urban local bodies in India are financially week and after footing the bill for establishment expenditure are mostly left with little or sometimes no money for provision of services, due to the above situation the delivery of services becomes poor and results in low cost recovery, as people stop paying for the poor quality services, this intern results in operating inefficiency and inadequate maintenance this further deteriorate the services. This vicious cycle is the core problem.



The reasons for the problem are :

1. The delivery of services is without any competition in the urban sector.
2. There is no incentive for the individuals or the organization responsible for the delivery of services.
3. Users are not involved in the process or they are usually ignored.
4. Poor financial position of the urban bodies.
5. The remedy for the above is:
6. One should manage the services like a business. Rule of law should be strictly implemented; the staff should be responsive, and accountable.

7. There should be competition in provision of services eg: Telecom-industry. There should be no monopoly and the user should have choice.

8. There should be involvement of users and other stake holders. Element of transparency in the system should be encouraged.

1. WHAT IS PUBLIC-PRIVATE PARTNERSHIP?

The imperative to deliver service outcomes through public-private partnerships (PPP) is still new in India and an uncharted territory in most parts, especially in northern belt of the country. However wherever PPP models have been implemented in the country; it has made a qualitative difference to Governance and to the lives of the people.

Public-private partnerships have become an important vehicle for drawing together the resources (and know-how) that are needed to expand and improve human conditions in the civil societies. Partnerships are formed when citizens and organizations join together to improve quality, increase supply, and/or improve the accessibility of civic amenities or local needs in a state or community. Hence, there is a need to understand first 'what is Public-Private Partnership'? A public-private partnership exists when the public sector (federal, state, local and/or tribal, officials or agencies) joins with the private sector (families, employers, philanthropies, media, civic groups, and/or service providers) to attain a shared goal, in a team spirit. Team's experience covers the full spectrum of relevant disciplines in both the public and private sector, from corporate management, audit and accountancy to planning, human resources, e-technology, marketing and public affairs.

The need for Public-Private Partnership is strongly felt due to an increasing demand from the people at local Municipal Body levels, that public servants and civic authorities take an active role in the community, that promises are delivered and that public funds are used most effectively and optimally.

Public services therefore need to remain committed to meeting current challenges, which may demand a radical shift in culture and the way things have been done in the past. The citizens apart from other stakeholders of the society, civic officials would have to recognize an increasing need to become pro-active in problem solving, fund-raising apart from securing best value for the citizens. Towards this end; embracing new culture of openness, transparency, accountability and strong leadership are vital.

2. CHARACTERISTICS OF PUBLIC-PRIVATE PARTNERSHIP:

Though each Public-Private Partnership is unique in its design and delivery mechanism, however typically they share some common characteristics as follows:

- Public-Private Partnership bring together multi-stakeholder public and private sector partners.
- Partners work together toward shared goals and objectives.
- Each Public-Private Partnership partner contributes time, money, expertise, and other resources in kind. Every contributory model apart from contribution quantification model is also different from each other. .
- Decision-making and management responsibilities are shared among the partners.

3. WHY PUBLIC-PRIVATE PARTNERSHIP:

The two options available to any Government are:

1. try and improve the performance of the Public sector, or
2. Privatize.

The first option, namely, improving the performance of public sector was tried in several countries. Though those attempts were worthy in themselves, but none worked in the sense of improving the performance.

Given the experience, privatization, the other option is seen by most Governments as the answer in meeting the challenge and demands of the people. In fact, privatization is regarded as an important tool to economic revival and efficiency[3].

Privatization has become necessary also due of the following reasons:

1. **Lack of Capacity**: The staff of Government/public sector is not properly trained on the other hand private sector has a properly trained staff. A large number of practitioners and observers both from the donor and participating bodies, academic institutions are increasingly developing greater insights into the dynamics of people coming together to get things done. There is also a belief in the process of developing skills of all stakeholders associated with the PPP. Consensus building is a vital component of the capacity-building process. Assessment and tools opposed to be deployed for acting in collaborative manner for delivery of common good is a very important component of PPP capacity building initiatives.

2. **Financial Weakness**: The Government does not have enough money which is needed for the latest equipment and technologies, whereas the private sector is financially strong and can invest in the latest technology and equipment. Hence the need of the hour is to tap the financial resources available with the private sector

3. **Over staffing**: In the Government sector there is lot of over staffing and wastage of vital resources in paying the salary bill of the staff, where as the private sector does not have this problem.

4. **Rapid urbanization**: The Government alone is unable to deliver the services as due of rapid urbanization the present infrastructure is hard pressed, hence private sectors' involvement is necessary in provision of services and infrastructure.

4. OBJECTIVES OF PUBLIC PRIVATE PARTNERSHIP

The main objectives of any Public-Private Partnership should include the following:

1. Provision of Services Efficiently
2. Reliability of Services provided
3. Services provided should be of high quality.
4. The partnership should be viable.
5. The services should have access by ***all the classes of society and stake holders***.
6. The services provided through Public-private Partnership should be sustainable.

5. PPP FOR URBAN POOR

All efforts of development need to expand access to infrastructures and improve the delivery of key services, such as basic health, education, water and sanitation to the poor. Infrastructure availability has direct relation to poverty. The availability of reliable and affordable infrastructure contributes directly to poverty reductions. PPPs can be a vehicle for providing services to the "under-serviced" group. This can be achieved by providing private sector with incentives to reach the unserved poor. PPPs can assist in the process of poverty reduction in many ways. By easing binding constraints to economic growth, PPPs can help to generate incomes, employment and government revenues that are used to finance higher levels of private and public consumption. PPP projects can also have a direct influence on the poor by:

- providing available and affordable access to good-quality, economic and social infrastructure services to poor people;
- providing employment and business opportunities to the poor;
- enabling poor people to have a better quality of life by increasing access to health care services, education, clean drinking water, information and markets;

6. FORMS OF PPPs :

The main broad categories of PPP **(Source: DEA-Govt. of India)** are as follows:

-- Service Contracts
-- Management Contracts
-- Leases & Affermage
-- BOTs/Concessions
-- Asset Sales and Divestitures

Given below is a short description of each of the options.

Build Own Operate (BOO): A PPP transaction structure, in which the private partner builds, owns and operates the contracted facilities for a prescribed period of time.

Build Own Operate Transfer (BOOT): A PPP transaction structure in which the private partner builds, owns and operates a contracted facility for a prescribed period of time, transferring all assets back to the government at the end of the contract.

Build Operate Transfer (BOT): A PPP transaction structure in which the private partner builds and operates a contracted facility without any explicit ownership rights, transferring all concession rights back to the government at the end of a contractually prescribed term.

Build Operate Transfer (BOT)/Annuity: A variation of BOT in which the private partner builds and operates a contracted facility without any explicit ownership rights, transferring all concession rights back to the government at the end of a contractually prescribed term. However, in this case the private partner recovers the investment through pre-determined annuity payments by the client.

Build Transfer Operate (BTO): A PPP transaction structure in which the private partner builds a contracted facility, transfers it to the government and then operates it for the term of the contract.

Design, Build, Finance, Operate (DBFO): A variation of BOT under which the private partner finances design and construction and operates a contracted facility without any explicit ownership rights, transferring all concession rights back to the government at the end of a contractually prescribed term.

6.1 Service Contracts:

The objective of a service contract is to take away a specific function from a ULB and to contract a private firm to carry them out for a specified period (frequently 2-5 years) under a contractual arrangement.

Under service contracts, ULBs retains investment responsibilities and ownership, but transfers specific services and operations to the private sector. The service contract is a legal instrument under which a private company is awarded the right by the government to provide a particular service for a given period of time.

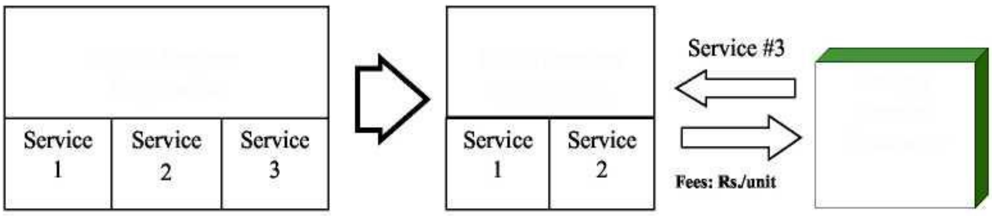


Figure : PPP Service Contracting

Common examples of successful local service contracts include garbage and solid waste collection, repair and maintenance of water and sanitation pipes, repair and maintenance of streets and roads, and the provision of metering, billing, and collection services for local water, electricity, solid waste management services.

Advantages of a Service Contract:

- The advantage of service contracts is the cost savings and the improved performance.
- Second important advantage of a service contract is that it can allow an infrastructure-contracting agency to first test out PPPs in a limited fashion before pursuing a more comprehensive and longer-term PPP contract.

6.2 Management Contract:

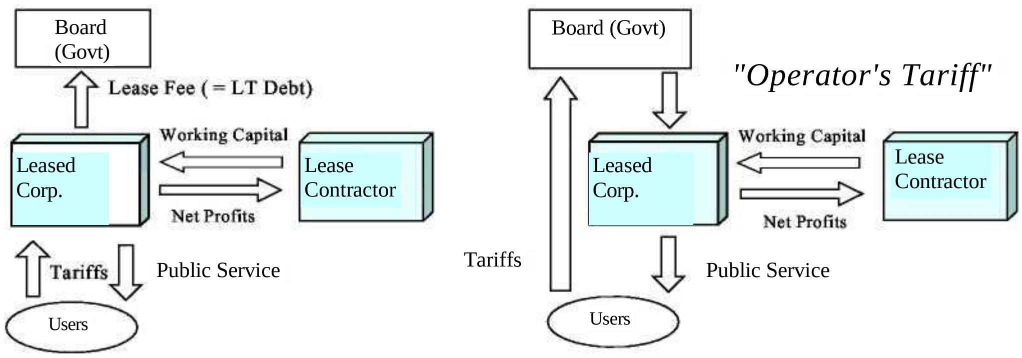
A management contract is similar to a service contract. However, instead of providing only a specific service, it involves the general management and administration of a service facility. The objective of a management contract is to reach specific operating goals. These goals can include reducing the costs of operations, improving collection rates, or modernizing management information systems, for example.

Much like a service contract, in the case of a management contract, the government retains asset-related investment and ownership responsibilities, but transfers the responsibility for services and operations to the private sector.

6.3 Leases and Affermage:

Leases are the next most advanced technique in terms of the transfer of risk onto the private sector. A lease is similar to a management contract in that the private sector is responsible for the management and operating decisions, but unlike a management contract, the private contractor must also provide the entity with working capital and compensate the government, the owner of the asset, for the right to operate and utilise the asset. These payments to the government are lease or rental payments. In exchange for taking on these additional responsibilities and risks, the private lease contractor is allowed to make profit from the tariff they collect. The government, as the owner of the long-term assets of the enterprise, still retains responsibility for making all long-term system planning and strategic decisions. **(Source: DEA. Govt. of India)**

Afterimage is a variation of lease with one important difference. Under an afterimage, the responsibility for collection from users remains with the public sector, as the owner of the system. The government pays the operator what is legally termed as an *Operator's Tariff* according to a specific formula about how well the operator has improved the service or controlled operating costs, etc.



Lease Vs Affermage

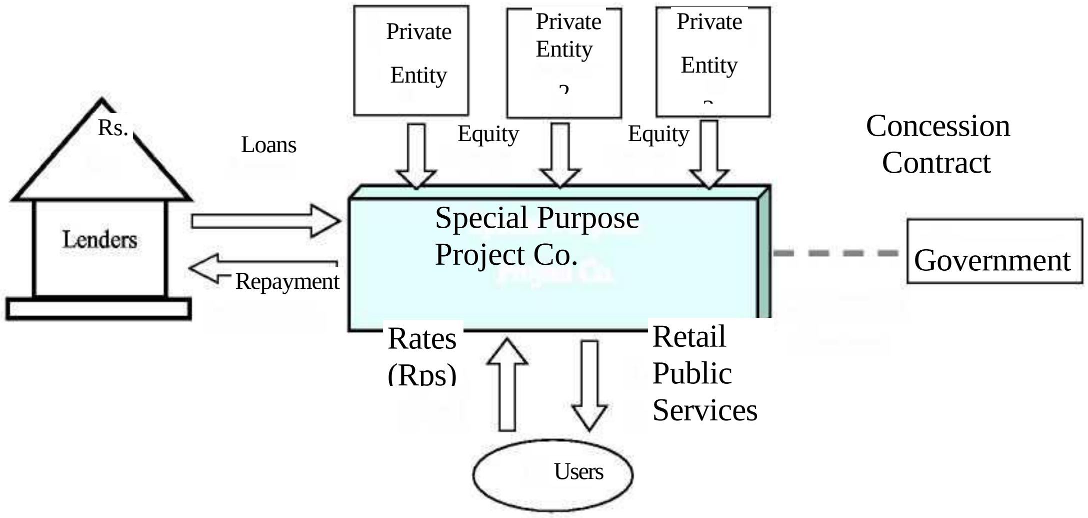
6.4 Build-Operate-Transfer (BOT) contracts/Concessions:

BOT has received the greatest level of attention and interest amongst all PPP arrangements. The term Concessions is used interchangeably and considered synonymous with BOT in India. Fundamental idea here is that the government formally *concedes* to a private party (termed as Concessionaire) its normally exclusive right or responsibility to provide key public services for a specified period. While BOT/concession contracts are very attractive for ULBs seeking to rapidly expand new investment into their infrastructure networks, this form of PPP is amongst the most challenging to prepare and successfully execute.

Moreover, BOT/concessions are more complex and challenging to prepare, structure, and contract than are the lower end or smaller-scale PPPs. If one is understands the principles and good practices for successfully preparing and structuring larger-scale PPPs, the other forms of PPPs become easy.

There are many variations in BOT arrangements. However some common features of BOT are:

- It requires that the private partner raise and meet the upfront costs.
- The private partner builds and operates the facility.
- The private partner incurs the operation and maintenance (O&M) expenditure.
- The private partner recovers the cost along with interest/return on investment from tariff during the contract/concession period.
- The private partner transfers all the rights to the government at the end of the contractually prescribed term.



VARIATIONS IN BOT TERMINOLOGY:

There are a number of variations such as Build-own-operate (BOO), build-transfer-operate (BTO), buildown-operate-transfer (BOOT), rehabilitate-operate-transfer (ROT), and design-build-operate (DBO).

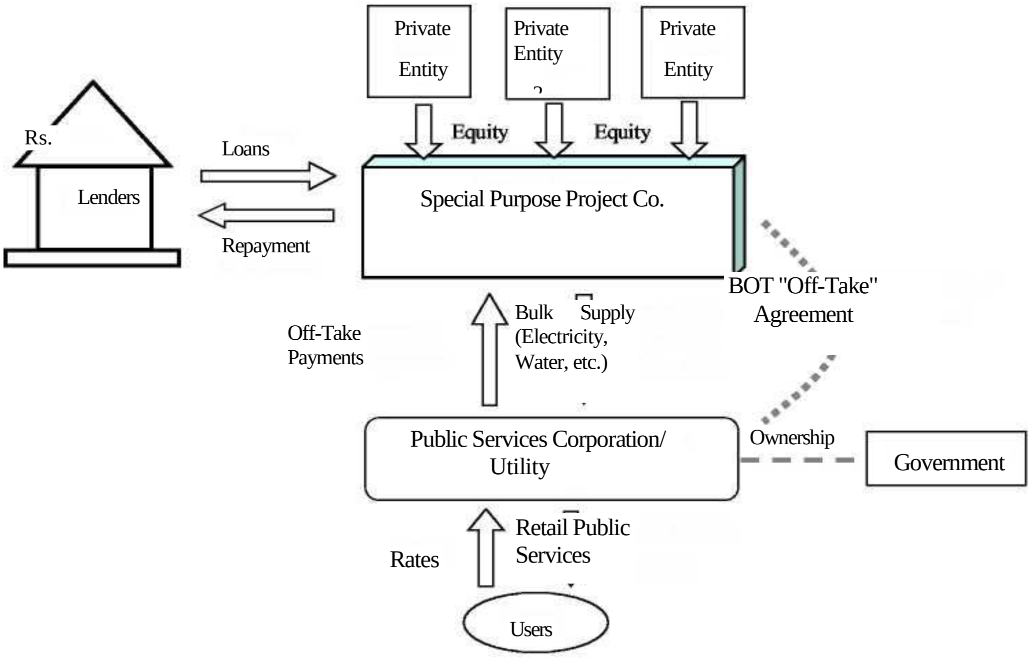
While there are differences among them, in general they point to an infrastructure project awarded to a private investor to develop, finance and operate.

Commonly, BOT capital expenditures are funded by the private sector via project financing. Usually a number of different private entities will come together to establish a new single-purpose company, called a Special Purpose Vehicle (SPV), for the sole purpose of development and operation of the PPP project.

Two noteworthy variants of BOT are BOT (Annuity) and Design, Build, Finance and Operate (DBFO).

Under **BOT (Annuity)** projects, the private sector/concessionaire recovers the investment through predetermined annuity payments by the government, as opposed the charges being paid by the users or tied to level of actual usage.

Under **DBFO,** design, construction, financing and operation are all bundled together.



To kick-start the PPP programme in the development of highways in India, the National Highway Authority of India (NHAI) adopted the BOT (Annuity) approach for attracting private sector players.

In the Indian context, the following areas would be natural candidates for the ULBs wanting to cover BOT/concession form of PPPs and a large number of case studies have been covered in the Handbook:

- Highways
- Urban Transportation
- Water & Sanitation
- Parking
- Solid waste Management
- Hospitals

6.5 Asset Sales and Divestitures:

Even though BOT/concession contracts may have terms lasting several decades, ownership of all the infrastructure assets developed under these agreements is eventually transferred to the Govt. and to the ULBs. By contrast, asset sales and divestiture are arrangements that legally transfer the full title and ownership rights of a public sector asset to the new private owner *in perpetuity*. The new owner would have all of the rights of ownership, including the ability to resell part or all of the assets to a new owner. In the case of divestiture of non-infrastructure assets, this would be regarded as outright *privatisation*, not a PPP. **(Source: DEA, Govt. of India)**

While divestitures are not commonly contemplated as a form of PPP, in the case of infrastructure assets, even with divestiture, the ULBs may still retain substantial say by way of regulation of tariff, performance standard requirements and restrictions.

6.6 Other PPP Structure Options :

There are additional variations in PPP as outlined by the Department of Economic Affairs, Govt. of India viz.

Build and Transfer (BT) : A contractual arrangement under which the Concessionaire undertakes the financing and construction of a given infrastructure or development facility and after its completion turns it over to the ULB concerned, which shall pay the proponent on an agreed Schedule its total investments expended on the project, plus a reasonable rate of return thereon. This arrangement may be employed in the construction of any infrastructure or development project, including critical facilities which, for security or strategic reasons, must be operated directly by the ULB.

Build Lease and Transfer (BLT) : A contractual arrangement under which a Concessionaire is authorized to finance and construct an infrastructure or development facility and upon its completion turns it over to the ULB concerned on a lease arrangement for a fixed period after which ownership of the facility is automatically transferred to the ULB.

Contract Add and Operate (CAO) : A contractual arrangement under which the Concessionaire adds to an existing infrastructure facility, which it is renting from the ULB. It operates the expanded project over an agreed franchise period. There may, or may not be, a transfer arrangement in regard to the facility.

Develop Operate and Transfer (DOT) : A contractual arrangement under which favourable conditions external to a new infrastructure project which is to be built by a private project proponent are integrated into the arrangement by giving that entity the right to develop adjoining property, and thus, enjoy some of the benefits the investment creates such as higher property or rent values.

Rehabilitate Operate and Transfer (ROT) : A contractual arrangement under which an existing facility is turned over to the private sector to refurbish, operate and maintain for a franchise period, at the expiry of which the legal title to the facility is turned over to the ULB. The term is also used to describe the purchase of an existing facility from abroad, importing, refurbishing, erecting and consuming it within the host country.

Rehabilitate Own and Operate (ROO) : A contractual arrangement under which an existing facility is turned over to the private sector to refurbish and operate with no time limitation imposed on ownership. As long as the operator is not in violation of its franchise, it can continue to operate the facility in perpetuity.

Supply, Operate and Transfer Agreement : An agreement under which a person supplies to the ULB equipment and machinery for a project and undertakes to operate the project for a period and consideration specified in the agreement. During the operation of the project, the Private Operator shall undertake to train the employees of the ULB to operate the project.

7. KEY PRINCIPLES FOR A SUCCESSFUL PUBLIC PRIVATE PARTNERSHIP

Successful partnerships follow some common principles that guide and support their activities. Most important principle of a successful Public Private Partnership model is to formulate clear goals and objectives. Partnerships should define goals at the outset in order to ensure clarity among partners, achieve desired results, and help guide the partnership through obstacles and challenges.

Public Private Partnership must aim to achieve positive results and regularly measure progress. Regularly measuring results allows partnerships to assess whether activities and strategies are meeting goals, and what changes should be made to make partnership efforts more effective. While doing all this, it should be kept in mind to involve local people and account for their needs, preferences when developing programs and services since people are the ultimate consumers and targets of Public Private Partnership program.

For local citizen services to be successful, the services must address needs of the people as far as possible apart from services being culturally, socially, morally and linguistically appropriate. Consequently it is imperative that the local residents/citizens together with the NGOs, Civil Society Organizations (CSOs) as well as the Government officials must be involved in both designing and evaluating partnership programs. The program should be broad-based and include key stakeholders from the beginning. Partnerships are most effective when they are able to draw from a broad range of perspectives, resources, and expertise. Partnerships can gain broader public and private support for their efforts through the constituencies, value systems that each partner represents and supports.

The Public Private Partnership must involve powerful champions who make the partnership goals visible and demonstrable to the public. Success requires leaders in all sectors who act as change agents by clearly communicating the goals of the partnership and building a broad base of support for it.

For having better functioning of the Public Private Partnership, it is imperative to establish clear governance structures that define partner roles and responsibilities. Establishing an effective governance structure is essential to successful partnership management. It is equally important to define the various roles that partners will play and to make sure that all the partners understand and accept these roles. It is necessary for all Public Private Partnership partners and stakeholders to set and adhere ground rules that guide the partnership in its work. Partnerships should begin with mutually agreed-upon ground rules. Such ground rules might include how partners will define and measure success or other-wise, conduct meetings, and communicate with each other, share information, and make decisions.

While engaging in partnership, the partner is required to be flexible, willing to contribute through his/her entrepreneurial mindset, apart from being ready to adapt to changing conditions and resources. Partnerships must be able to change in response to emerging needs and to take advantage of new opportunities. The motto should be to enable all partners to benefit by drawing on their strengths and contributions. Each partner brings different strengths, knowledge, and resources to the partnership. Sensitivity to the complimentary attributes cements working relationships amongst partners apart from enabling the partnership to draw on a broad range of resources and expertise.

The partnership will have to work consistently very hard to maintain momentum and sustain the efforts over time. The most successful partnership plans envision right from the beginning how they will maintain momentum and sustain their efforts. Key elements, for maintaining this momentum, are planning for financial sustainability, celebrating successes, and creating a sense of shared ownership and collective purpose increase the likelihood that partners will stay involved in the long run.

These principles are relevant to a variety of initiatives and can be summed into Six Guiding Principals:

1. **Design the contract to deliver a balanced risk profile between Government & the Private Operator**

A successful contract will balance the risk between the government and the operator. When PPP arrangements are designed in a manner that allocates project risks to that party best placed to handle that risk, they provide greater purpose and clarity for everyone involved - from government to potential bidders - regarding the desired outcomes and benefits. However, it is also critical to clearly communicate the outcomes and benefits to the key stakeholders.

Rigorous risk management is important throughout the life of the contract, as the costs to Government of not implementing the best strategy or having a failed PPP strategy will be extremely high - not only politically, but also to customers and to the economy as a whole. Risks must be defined and addressed continuously.

2. **Win the commitment of critical stakeholders and operators**

The implementation of the PPP project must be thoroughly and skillfully presented and marketed within Government, to the utility management, staff and labor, to the labor sector generally, and to the public-at-large. The benefits of reform and privatization must be developed and well presented if they are to be understood and accepted by all stakeholders. The success of the reform and PPP exercise will be greatly enhanced by successful marketing of the concepts involved. In addition, the commitment of potential bidders / operators will need to be gained and the design of the structure, its transparency and overall management (during and post transaction) will have a critical bearing in an operator's decision to participate in any PPP arrangement.

3. **Develop a strong contract between Operator and Government**

Sustainability of the transaction is of paramount importance. For Government's objectives to be met and for the operator to perform adequately, the 'rules of the game' need to be set. Clarity of roles and responsibilities between the parties are essential ingredients to achieve long and sustainable results.

4. **Drive the Bidding Program**

Change must be introduced at a pace that the marketplace can accommodate, maximizing buy-in at all levels in order to minimize the risk of failure. The process of developing buy-in will also involve consultations with Bidders at the beginning (when designing the structure of the transaction) and during contract development, and procurement.

5. **Demonstrate improved service delivery in terms of customers and infrastructure**

The key objective of the introduction of the private sector in the infrastructure sectors is generally to meet Government's policy objectives of:

- Improvement, quality, cost and access to infrastructure, and
- Ensuring the financial viability of infrastructure at minimum cost to Government

Clearly, in meeting the above objectives, Government will have a positive social and economic impact.

6. **Sustain change to deliver long term benefits**

   All the levers (processes, fairness, transparency of process, international best practice, stakeholder participation, regulation) must be used to embed the changes into the privatization to ensure that benefits continue to be delivered and the changes sustained after the transaction has been completed.

8. KEY ELEMENTS FOR A SUCCESSFUL PUBLIC PRIVATE PARTNERSHIP

The following are some of the key elements for a successful Public Private Partnership:

8.1 SELECTION OF SERVICE:

In the selection of the service to be taken up for a Public Private Partnership should be selected with utmost care. For the first time, the worst service should never be taken up as a failure would further complicate the issue.

Individual potential PPP projects must go through an initial analysis to develop enough information about its viability and, subsequently, to determine if a full-fledged feasibility study is needed or not.

Conducting a PPP feasibility study includes technical, financial, economic, legal, regulatory, institutional, social and environmental analyses, can be expensive and time-consuming. Therefore two stage process must be undertaken:

-- Project identification; and

-- Project assessment.

- **Project Identification:**

Project identification suitable for PPP is ULBs responsibility Project identification work would be performed by the ULB jointly with an external Consultant.

Initial conceptualization of project may resort to perusal of some established documents viz. an approved Master Plan or identification of special opportunities arising from the absence of certain critical services or deterioration in existing services could all be sources of prospective PPP projects.

The PPP projects may also be prioritized applying a set of indicators viz.

- Lack of budgetary provisions in the sector.
- Citizens who would benefit from the new PPP project.
- Social and political impact.
- Quantifiable outcomes.
- Opportunity to transfer risks faced by the ULB.
- New paradigm emerging as result of the private sector employing new skills, expertise and/or technology, as well as innovative approaches, towards improving quality of service and/or reducing costs.
- Past success stories
- The PPP project would not be *unaffordable for all stakeholders.*

- **Assessment for a PPP Project:**

A highly desirable PPP project may be prioritized applying above criterion; and a project that reflects a social and political priority and is also commercially attractive must be implemented after a careful assessment.

When initially proposed, many PPP projects may not be attractive since the projects have high projected economic rates of return, but do not have attractive financial rates of return. Support from the Govt. notably Viability Gap Funding (VGF), can make them viable. Therefore, projects do not necessarily have to be commercially viable on their own to be desirable candidates for PPP.

Steps should be selected in the PPP assessment stage that would have the most relevance to the success of the project:

- **Stakeholders Consultations:**

Communication with key stakeholders is one of the most crucial aspect before the commencement of the PPP work. In considering any new PPP project, key stakeholders should be identified and an initial assessment should be made as to how they would likely be affected by the project. PPP stakeholders should be categorized broadly as specific groups within the broad categories viz.

- Service users
- Community members
- Ultra poor and NGOs
- Other members of civil society
- Trade Unions
- Private sector
- Trade associations and other business groups
- Local politicians
- ULB staff
- Higher government officials

Given the long-term nature of most PPPs, as well as the complex risk distribution structure, close coordination with key stakeholders can go a long way toward ensuring a project's sustainability. As such, effective stakeholder communication and consultation is an important task when selecting potential projects. This is the process of involving stakeholder groups in decisions regarding the required public services. The interests and views of key stakeholders should be taken into account in order to achieve their input and *buy-in* for the proposal and to improve the project's overall viability. **(Source: DEA, Govt. of India)**

There are many techniques used for conducting effective stakeholder consultation for PPPs, such as:

- Hosting public meetings to discuss the issues facing a given infrastructure sector
- Organizing focus groups of the leaders of stakeholders to discuss PPP objectives, options, and recommended solutions
- Public Information domains viz. Newsletters and Web sites.

Stakeholder consultation procedures for PPPs should have realistic deadlines to allow for timely decisions. Continuing requests for more and more consultations by groups who are steadfastly opposed to the project should not be allowed to indefinitely delay decisions on a project.

- **PPP service Needs assessment:**

Needs analysis must begin with establishing the project's objectives in terms of meeting service ***output*** needs. This is very different than in the case of traditional, non-PPP procurement for infrastructure ***inputs***, where a project focused on the implementation of a predetermined design or infrastructure input solution. In order to assist in detailed project analysis and PPP procurement, the *output* objectives must be specific, quantifiable and measurable.

The PPP project's objectives must also be demand-driven. Demand should be determined in consultation with users. For PPP, expected future users should be consulted and should generally have agreed that the proposed new service is something they are interested in using. Needed output levels as well as performance standards/quality measures should be gauged at this stage.

Willingness to pay: Willingness to pay must be analyzed and determined vis-à-vis the historic relationship between prices and quality of service. The socio-economic demographic profile of the area also has a strong bearing on the consumers' *willingness to pay*. Surveys of varying intensity may be commissioned to assess the citizens ability to pay.

Regardless of the objective indifference, raising prices is never likely to be popular and may become a major political challenge. If charges are not perceived as being fair, they are unlikely to be acceptable. The service charges payment must get covered in the stakeholder consultations.

The Project Manager must establish the project baseline, describing the current service levels and revenues, and propose the main components of the potential PPP project to be able to make an overall assessment of the project's desirability The assessment matrix must cover:

- Future service output requirements, expressed in measurable and quantifiable terms. This could be stated in terms of the overall output levels and the ratio of facility capacity to demand.
- Timeline for implementation of the project
- Performance standards such as delays at toll booths, number of hours per day a service is available, interruptions, time required to fix pot-holes in roads, etc.
- Trade-off between tariff rates and quality
- Volume of usage and revenue generation/expectation
- Special rate considerations with respect to different socio-economic strata, and the differentiation between individual and business users
- Social impacts, such as displacement/rehabilitation of population
- Environmental impact considerations
- Preliminary estimates of capital expenditures
- Preliminary estimates of O&M expenditure
- Preliminary estimates of expected financing arrangements, including costs to the SPV
- Initial options for the required or preferred length of the PPP contract/partnership
- ULB employees who may be displaced by the PPP
- Roles and responsibilities of parties to the PPP contract
- Estimated rate of return.

- **Alternate Options Assessment:**

PPP may be seen as a panacea for all ills afflicting the sector; and therefore threadbare all alternate options may be considered by the ULBs.

Deterrents and constraints may also be evaluated at this stage viz.

  - Lack of sector policies favourable to PPP and Political, Bureaucratic structure.
  - Lack of enabling legislation to support private investment
  - Inadequate regulatory framework
  - Lack of Investor friendly environment and political-administrative environment.
  - Lack of clear rules and procedures governing how a private service provider would operate, get paid, secure contracts, etc.
  - Unsuitable government policies influencing private financing and cost recovery
  - Stifling bureaucratic structure or other organisational weaknesses of the pertinent public sector institutions
  - Lack of a strategic understanding of public private partnerships
  - Difficulties in contract specification, administration and oversight
  - Lack of sufficient legislation to support the management and supervisory role of the public sector in a PPP
  - Lack of sufficient data to allow design and preparation of projects
  - Lack of social acceptability of PPP
  - Lack of ability to acquire land and other infrastructure projects.

- **Private Sector Interests Assessments:**

The Project Team must be careful in their selection of the Private service provider and conduct a thorough credential assessment before entering into a dialogue with them for the PPP. PPP is not an excuse for the opening up of doors of the ULB indiscriminately to the Private sector and a careful assessment must be carried out in advance.

Prospective projects that offer below conditions will be of interest for PPP :

- Significant unmet demand
- Revenue generating potential
- Strong project fundamentals and viability
- Risk mitigation strategies as well as logical risk allocation
- Rewards commensurate with risks
- Political commitment to the project
- Defined regulatory framework
- Opportunity to deploy new technologies for efficiency gains
- Potential for expansion of service
- Replication potential
- Opportunity to become the leading private service provider within a given sector or geographic region

Risks Assessment:

PPPs must identify significant risks of a given project, analyze their probability of occurrence and the magnitude of potential impact in advance, and must allocate each risk to the party that is best able to manage, control, and mitigate.

8.2 PRE FEASIBILITY REPORT:

The most important part of any Public Private Partnership. Most of the partnerships fail because it is usually not done. The Governments should sanction some money in the budget for the purpose. Must include avoided cost analysis. As far as possible it should be done by a independent Organization/ consultant. In this phase of the PPP project life cycle, a rigorous full-fledged feasibility study is conducted to determine if the project is viable. If approved, the PPP DPR could take the project forward to tendering.

8.3 CONDUCTING FEASIBILITY STUDY :

Inadequate preparatory work can lead to unnecessary transaction costs, contingent liabilities, significant delays in implementation and even possible project failure. Feasibility Study entails the following steps by the ULB responsible for the provision of infrastructure services:

-- **Analysis and Demand Forecasting**
-- **Estimating Project Costs**
-- **Pricing Estimations.**
-- **Assessment of financial viability**

- **Analysis and Demand Forecasting:**

Demand Forecasting is the most crucial aspect of a PPP DPR preparation. This analysis is designed to anticipate demand levels over the life of the project, starting with the ramping up and stabilization of the project and then taking into account annual growth rate estimates.

Demand forecasts are routinely used to develop specifications for construction of infrastructure projects and, therefore, reliability of forecasts is of very high importance when preparing the feasibility study. Indeed the viability of most PPP projects is heavily dependent on the demand forecasts for services.

Demand forecasting is also a crucial element for determining the targeted performance/output standards, construction schedules and other critical elements eventually affecting the project's financial viability. If demand projections are overly optimistic, this will result in excessive or idle capacity and unwarranted costs, making the project financially unviable and an inefficient use of both private capital and public support.

On the other hand, when demand projections are overly conservative, they yield projects that are under-estimated, which likewise produce inefficiencies because they usually cost less to build capacity up-front. Overly conservative estimates also minimize the socio- economic benefits of the project. For these and other reasons, demand analysis and forecasting should be undertaken with great care.

There are many sophisticated techniques for demand forecasting involving data collection, management, and processing; model estimation; and application/interpretation of results. Yet, most of the time, forecasting has to be done under great uncertainty about many key inputs and drivers of the projections, such as demographics, economic factors, costs, price elasticity, technology, competition and differences between the assumed and actual operating plans.

One way to anticipate and ameliorate some of the potential adverse consequences of the conclusions drawn from possibly shaky forecasts is to subject them to *what if* analyses designed to *identify and quantify the inherent risks* along with the appropriate mitigation strategies, under varying (high, low and median) demand and other key variables, benchmarked against comparable forecasts and projects and subjected to independent reviews in order to assess the reasonability of the outputs.

- **Estimating Project Costs:**

Cost projections are a fundamental element of any PPP DPR. Principal cost projection categories include the following :

Construction Costs: These costs include design/engineering, environmental assessments, and physical construction (materials, labour, machinery, administration, insurance, and contingencies), equipment procurement and facility start-up. With most PPP projects, the majority of these costs are up-front expenditures, to be incurred by the Private Sector Company during the initial years of the contract. As such, cost estimates are typically based on current market prices (adjusted for expected inflation).

O& M Costs **:** This category of costs comprises all expenses incurred during the service delivery phase of the PPP contract, including: personnel, professional services, routine and periodic repairs and maintenance, equipment, materials/supplies, other services, utilities, insurance, performance bonds, etc.

Financial Costs **:** Most major PPP options entail private financing and therefore, financial costs must also be considered. Typically, these include up-front financing costs such as arranger fees, financial close commission, etc., as well as interest. Financial expenditures can be estimated based on projected capital expenditures and the expected interest rates. Given that cost projections will greatly influence the commercial and financial viability of the project, care should be taken to ensure that estimates are reasonable and based on optimal assumptions. Both hard and soft costs should be analyzed and estimates should be evaluated in comparison to relevant industry cost indexes and benchmarks. **(Source: DEA, Govt. of India)**

- **Pricing Estimation :**

Given that PPP projects typically provide a service against payment of a price, tariff or user charge, estimating prices is also a crucial consideration. Ideally, initial user charges would be estimated exclusively as a function of the income level required to recover project costs, plus a reasonable rate of return for investors.

However uncertainty and risks associated with projected costs and demand estimates, added to public resistance and political influence can make pricing estimation a complex endeavor. Multiple pricing options and cost assumption scenarios must be considered to determine a project’s financial feasibility. International best practices suggest that pricing estimates are also discussed with users. Once pricing estimates are established, revenue projections should be performed under multiple combinations of the demand and price scenarios in order to identify risks and detect possible revenue shortfalls.

It is important to note that while price assumptions have to be made for the PPP DPR, often the final prices will be determined competitively, via the bid process;

although in some instances, they may be established by the relevant authority based on other considerations.

- **Assessment of Financial Viability :**

Cash flow statements should be developed to determine the overall financial viability of the project. It is at this stage of the DPR a more detailed financial assessment must be done including a thorough assessment of potential funding requirements and sources, debt and equity, based on which the desired numbers and ratios are calculated.

8.4 Designing a PPP Financial Feasibility Model :

If projected revenues are sufficient and full cost recovery plus a reasonable rate of return are deemed feasible, the project is to be considered financially viable on its own. If, on the other hand, full cost recovery and a reasonable rate of return are not feasible, the immediate next step is to closely examine the key project inputs and determinants to see if and how the project can be made self-sustainable by making realistic adjustments to project dimensions, output objectives, contract term, scope of services, costs or even pricing guidelines. (Source: DEA. Govt. of India)

9. **Analysis of Key Project Risks and Allocation :**

Preliminary analysis of key project risks and their allocation would have been first done during the DPR. While preparing technical, financial, legal and other analyses for the development of the feasibility study, more detailed work should be done to identify the project's inherent risks, and to determine how these risks will be mitigated and allocated amongst the parties. This risk identification and allocation analysis will play an important role in determining the transaction structure and contractual framework for the PPP.

The proposed risk allocation structure for a PPP should become part of the general contract structure associated with the project. The contract framework is thus chosen not only after careful consideration of the needs of the project, but also its inherent risks and the ideal distribution of the risks. Possible contract structures -- such as leases, BOTs, concessions, or some other PPP variations -- should be analysed in light of specific project objectives and risks.

8.5 PPP DETAILED PROJECT REPORT (DPR) :

Once the assessment of the above has been carried out; a PPP DPR may be prepared; and this utilizes the findings of the assessment study.

Conceptually, therefore, a PPP DPR as per opinion of the Govt. of India should include at a bare minimum the following:

- PPP Project.
- PPP Project Objectives.
- PPP Project Analyses:

Technical Analysis : Demand/capacity requirements, technical facility requisites, performance/output objectives, available resources, cost estimates, quality management requirements, etc.

Financial/Economic Analysis : Pricing and elasticity analysis, revenue projections, feasibility studies, benchmark studies, required subsidies (VGF), − Legal/Regulatory

Analyses: Legal/regulatory framework, risk assessment/allocation evaluation, analysis of contracting options, preparation of draft agreement, etc.

Others : Environmental studies, institutional framework, etc.

- Risks identifications/allocations summary
- Structuring and other options
- Recommendations
- Required financial support
- Draft Terms of Reference for the Tendering and subsequent stages.
- Technical Annexes

PPP DPR may not simply conclude with a recommendation that a proposed project should proceed directly to tendering. Rather it may recommend certain reforms, preparations, and conditions precedent to make the project viable and bankable, prior to tendering viz. **(Source: DEA-Govt. of India/USAID)**

- Raising tariffs to cost-recovering levels
- Selling-off the non-core assets of a public utility
- Receiving in-principal commitments from Government to provide needed public sector support or VGF to a project
- Clarifying asset ownership in cases were there may be more than one public sector owner
- Confirm government's intent to assuming some contingent liabilities
- Acquisition or arrangement for acquisition of the land needed for construction of the new project
- Paying off or writing-off debts owed to a given public utility as long-standing accounts receivable
- Clarification of the status of current workforce including reduction in staff, confirmation of voluntary retirement scheme, quantification of pension liabilities,
- Resolution of issues about the legal ownership of individual infrastructure assets when co-owned by a combination ULBs/public enterprises.
- Transferring ownership of public facilities, assets, and infrastructure networks
- Strategies for protecting the poor and ensuring the *affordability* of public services for low-income users may need to be in place prior to PPP tendering.

- **Model Concession Agreement (MCA):**

Some Model Concession Agreements (MCA) are attached as Annexes. However depending on the specific PPP project requirements; the proposed project-specific variances need to be incorporated. A MCA specific to DPR must also be made a part of the DPR and a brief checklist of the modifications that need to be carried out in the agreement include as per DEA, Govt. of India sources:

- Assessment of the Conditions prevailing in the proposed PPP sector within the ULB; both buy the government contracting authority and the Private Sector Company
- General obligations of the Private Sector Company during the construction and service delivery period and also during the operation period
- General obligations of the ULB.

- Bank Guarantees to be provided by the Private Sector Company towards performance security
- Constitution and function of the PPP arrangement's Steering Committee
- Duties and functions of the independent quality control supervisors / consultants / engineers
- Duties and functions of the statutory auditor
- Inclusion and provision of substitution agreement
- Details to be included in the DPR and approval thereof
- Provision for capacity augmentation.
- Specifications to account for changes in standards/codes of practices
- Minimum maintenance requirements
- Safety requirements/revisions
- Viability gap funding (i.e. the prescribed ceiling can be revised form time to time depending upon the type of the project), other government guarantees or credit enhancements, etc.
- Payment mechanisms
- Revision in constitution of consortiums/ joint ventures. Requirements for substitutions, etc.

8.6 OBTAINING SUCCESSIVE 'IN PRINCIPLE' OR SPECIFIC APPROVALS AND CLEARANCES:

Once DPR has been developed and submitted, and the sponsoring ULB has intention to proceed with the project; in accordance with the Ministry of Finance, Department of Economic Affairs' Guidelines for Formulation, Appraisal and Approval of Public Private Partnership (PPP) Projects(Annex), the PPP Project may be forwarded to the Administrative Ministry for approval.

However this condition applies for large Central Government projects may, if deemed necessary, discuss the details of the PPP project and the terms of the PPP project in an inter-ministerial consultative committee in order to solicit comments, which may then be incorporated or annexed to the definitive proposal for consideration. This is particularly important for projects that involve more than one Ministry or Department.

8.7 PREPARE TOR AND CONTRACT DOCUMENT:

Terms of Reference and the Contract document should be prepared based on the pre feasibility report. TOR should essentially form part of the contract document. Care should be taken to essentially include penalties in case of default by either party.

Once the DPR gets approved; the next step involved is the tendering process for the selection of the Private sector provider who shall provide the infrastructure service.

8.8 RATIONALE FOR A COMPETITIVE BIDDING IN THE PPP CONTRACTS?

An open and competitive bidding is the most preferred approach for the selection of private sector partners under PPP in India. This approach should always be used unless a project-specific exception has been explicitly approved by the proper authority on justifiable grounds.

Infrastructure services – such as electricity distribution and many transportation services are different from most businesses. A big difference is that infrastructure services are often natural monopolies. While it makes good economic sense to have two or more different private businesses in a marketplace, such is not the case with respect to many infrastructure sectors.

The cost to the economy of infrastructure services such as electricity distribution are lowest when there is a single network providing them. However, this creates a very important challenge for PPPs which are intended to provide the most economic solutions and highest consumer welfare. How do you ensure the lowest possible prices when there is only one single provider who, in the absence of competition, would be tempted to engage in monopolistic behaviour?

The answer lies in considering the two fundamental strategies for introducing competition :

- Competition *In the market*
- Competition *For the market*

Competition in the market means that a buyer can regularly choose between different service providers based upon price and quality of service. Most consumers in India are familiar with this type of market competition as witnessed, for example, in the ability to choose between different mobile phone service providers. Additionally, the nature of the electricity generation sector also allows for side-by-side competition where, based on price, State Electricity Boards can select the private or public power plants from which to purchase electricity.

Competition for the market means that the service provider is likely to have monopoly rights and therefore, selection of the service provider should be subjected to competitive forces of the marketplace to control future monopolistic behaviour.

The PPP Project Manager must investigate the levels of competition within the given infrastructure sector. To prevent future problems, large PPP contracts may contain restriction clauses stipulating that if an owner of a PPP project company wants to sell its shares, such as by being acquired, the government reserves the right to approve the deal.

Overall, even though many of the tendering steps discussed in this chapter may increase the time and expense, they are crucial to ensuring that the projects produce good value for money, improved quality, accessibility and efficiency of service, fostering the sustainability and affordability of the projects.

Recommended framework for establishing Overall PPP tendering framework :

It is recommended that the ULB members involved in carrying out the bidding have a common understanding of the overall objectives behind the process to be carried out and the principles guiding it. Given below are some general objectives behind the method recommended in this chapter:

- To maximize the benefits of PPP by offering consumers improved and more cost effective services
- To foster credibility regarding the country’s overall PPP program

- To encourage private investment at a reasonable cost (fair and transparent procurement processes attract serious investors and reduce project risk premiums)
- To diminish information asymmetries among potential bidders
- To ensure compliance with relevant standards, norms and codes
- To reduce the implementation time via enhanced standardization and minimization of ambiguities

8.9 ADVERTISEMENT:

Advertisements should be given in the local and national dailies depending on the need. TOR along with Contract Document should form part of the advertisement. Sufficient time should be given for the response.

8.10 OPEN TECHNICAL BID:

Technical bid should be opened first. Care should be taken in selecting the technology, as it should be in accordance with local conditions.

8.11`OPEN FINANCIAL BID:

After short listing the proposals on the basis of technical bid financial bid should be opened.

8.12 CONTRACT:

Contract should be awarded only after all the above steps are taken. Execution of the contract when there is a well-prepared PPP project and a well-managed tendering process should be mostly a mechanical and ceremonial activity.

Conducting Negotiations:

Once the selecting the top ranked/preferred bidder is finalized, “negotiations” take place between the selected bidder and the sponsor. Because the risk allocation structure and the draft contract are already established, negotiations usually centre on filling in small details and no material issue should have to be negotiated.

If, however, projects are not well prepared and there are still important gaps in the risk allocation structure and in the contract, negotiations are much more difficult and time consuming.

In these cases, ULBs often find themselves at a competitive disadvantage, being forced to accept more risks by the selected bidders who no longer feel governed by the pressures of a competitive bid process. Such a situation is not only unfair to the other bidders, it is also not in the best interest of the project.

At the announcement of the preferred bidder, the ULB should also announce its deadline for both the beginning and conclusion of contract negotiations. It is recommended that these negotiations be undertaken quickly, at the very latest, within one month of bidder selection. The more time that passes without formalizing the contract, the more difficult it is for the ULB to maintain the competitive pressures on the preferred bidder and to turn to the second-placed bidder in the event that contract negotiations with the preferred bidder fail.

The bid and the bid securities shall be kept valid till the negotiations and signing of the contract is completed. In the event of failed negotiations or refusal, inability, or failure of the preferred bidder to enter into a contract with the sponsor within the specified period, the sponsor shall forfeit the bid security of such bidder. In such an event, the sponsor shall consider the second place bidder for the award.

In case the sponsor is unable to execute the contract with any of the qualified bidders, the project may be subjected to re-bidding after changes to the factors that resulted in a failed bid, if and as appropriate.

Execution of the Contract :

Once the negotiations are completed successfully, the contract is signed, and the winning bidder is granted the concession for the development, operation and maintenance of the infrastructure project, including the right to collect the specified tolls, fees, rentals and charges, subject to being able to finalist financial arrangements.

At this juncture, the bid securities of the unsuccessful bidders are returned, the awardee is expected to post performance bonds, and the awardee also proceeds with finalizing financial arrangements relating to the project.

9. ORGANIZING ULBs FOR PPP

Getting ULBs readied for PPP is the first of what can be referred as the seven phases of PPP life cycle viz.

Stage I : Organizing for PPP

Stage II : Project Identification by the ULB and Pre-feasibility Study for PPP

Stage III : Feasibility Study and Detailed Project Proposal

Stage IV : Inviting Expressions of Interest, Tendering & Contract Award

Stage V : Ensuring Financial Appraisal.

Stage VI : Monitoring of the PPP and Regulation

Stage VII : Contract Renegotiation and Dispute Resolution**.**

9.1 STAGE I: ORGANIZING FOR PPP

This phase takes place at two levels:

First, at the macro level, it involves creation of an overall framework for PPP which guides decision-making and provides known or predictable rules of the game giving confidence to the private sector and the public, and strengthens ULBs overall ability to effectively execute its functions during all stages of the project life cycle.

Second, at the individual project level, organizing is preparing for carrying out the remaining six phases of the PPP lifecycle.

9.2 ORGANISING PPP AT THE MACRO LEVEL:

Establishing a conducive and stable climate fosters private sector confidence, attracting investment and financing, and allowing acceleration of infrastructure development.

A number of surveys and analyses have determined that private international infrastructure developers regard a proper PPP framework as a major criterion for deciding whether or not to invest. Proper legal, regulatory and institutional frameworks are amongst the highest priorities when considering investments.

Organizing at the Macro Level entails five broad steps by the ULBs depending on their areas of responsibility, these steps are:

1. **SETTING OBJECTIVES :**

   The overall objectives are guided by the vision of the leadership and on how they wish to fulfill the needs, desires and aspirations of their people in areas of their responsibility.

2. **ESTABLISHING POLICY FRAMEWORK:**

   Policy framework is very crucial for establishing successful PPP framework. The Governments and the ULBs have to show their commitment to the PPP as a proactive approach to improving the quality, accessibility, efficiency and competitiveness of infrastructure services.

Strategic Reform Framework :

- Effective sector policies of any infrastructure sector have to ensure fulfillment of:
- Policy-Making and Sector Planning which is the responsibility of the Government & the Sector Ministry.
- Sector Regulation and Performance Monitoring which is the responsibility of the Regulatory Body established by the Govt.
- Sector Contracting Agencies and Ownership which is the responsibility of the ULBs.
- Operation, Service Provision and Maintenance of Assets which is the responsibility of the Private sector.

Traditionally, the above functions have been bundled together within one or two stages.

Practical Reforms:

In addition to the strategic reform to un-bundle functions discussed above, specific practical reforms need to be considered within each infrastructure sector in order to make PPPs more practical. They often include:

Tariff Reforms: One common cause of the underperformance of infrastructure is the lack of funds available to support and sustain the sector or a specific economic activity. The reason for this is that often tariffs are kept low – even below the cost-recovery level – so that services are more affordable to consumers, especially the poor. These artificially low tariff levels are usually sustained via subsidies from the Government.

International best practices have created a number of options for keeping tariffs at affordable levels through lifeline tariffs (user subsidies), as well as for improving the cost-recovery and financial performance of the utility and its management. These kinds of reforms are often needed to help pay for the costs of new PPP investments and to protect the interests of the poor and lower-income stakeholders.

Collection and Payments: Private sector and Public service providers often suffer from chronic collection and payment problems because users frequently fail to pay, but are not sanctioned or disconnected for payment failures. These payment problems make it very difficult for Private provider adequately cover maintenance and operating expenses, and nearly impossible to fund capital improvements such as infrastructure renovation, modernization and expansion.

Therefore a key part of the Practical reforms relate to enforcing existing laws and regulations that require enforcing and collection payments for public services. If this is not done, any private contractor asked to invest in the sector will require compensation from the government.

10. ENABLING PPP LEGISLATIVE FRAMEWORK:

PPP projects are subject to a broad range of laws not specific to PPP, including:

- Sector laws
- Contract Laws
- Investment Laws
- Procurement Laws
- Banking Laws
- Land Laws
- Tax Laws
- Liability Laws
- Labour Laws
- Dispute Resolution Regulations

10.1 ESTABLISHING REGULATORY FRAMEWORK :

When a PPP involves transferring services to the private sector that are monopolistic in nature, anti-competitive practices are bound to emerge.

Regulatory bodies have many functions in the PPP context; however, regulation of tariffs and other economic factors is one of their primary responsibilities. Serving as a conduit for consultation between the public and private sector and assisting in dispute resolutions are other important functions of a regulatory body.

The existence of independent regulatory bodies is critical to ensure autonomy, accountability, transparency and predictability for the success of PPP projects.

10.2 EFFECTIVE GOVERNANCE STRUCTURE FOR PPP :

While effective policy, legal, and regulatory requirements are crucial, the preconditions to the success of a PPP program, effective institutional structures at both national and sub-national levels are also needed to support private investment. Appropriate institutional frameworks help wean the public sector away from its traditional role as a direct service provider to that of a responsible and efficient PPP partner, bolstering its ability to initiate, implement and oversee projects.

A solid institutional structure also demonstrates to the marketplace the ULBs commitment to PPPs.

- **Financing of PPP infrastructure costs :**

When a project, though desirable, is not viable or bankable on its own, government can play a role toward the overall financing of an infrastructure project by setting up institutionalised mechanisms for this purpose. In India, there are two important mechanisms for this, as follows:

- **Viability Gap Funding :** Viability Gap Funding or Grant is a grant, one-time or deferred, provided by the Government with the objective of making a project commercially viable. Officials from the sponsoring entities applying for VGF may refer to the guidelines issued by the Department of Economic Affairs, Ministry of Finance, included as Annex For updates, please visit http://infrastructure.gov.in/pdf/Finance.pdf and related sites.
- **Special Purpose (Finance) Vehicle:** Ministry of Finance has also established a special purpose vehicle, the India Infrastructure Finance Co. Ltd. (IIFCL) via which PPPs projects can access funding under a variety of arrangements.

11. ORGANISING AT THE PROJECT LEVEL:

Besides the macro level institutional structure required for PPPs, the sponsoring ULB must establish a project-specific team. Suggested below are the project-level organizational requirements.

ULB/The Project Sponsor :

The ULB sponsoring the project is the centerpiece institution of PPPs. It is the "public" component of the public private partnership. While the ULB may get guidance and support from PPP Institutions and external consultants, this entity is ultimately responsible for identifying, structuring, procuring and overseeing PPPs since it is authorized under the legal framework to engage in forming a PPP.

The ULB or interlia the project sponsor is the public sector infrastructure contracting agency that actually signs the PPP contract with the private company. It may even be the off-taker of any privately produced Services. The ULB or Project sponsor has the primary responsibility to the public for ensuring service provision, but also needs to initiate and promote the PPP project well before any private sector party is involved. It also retains a vested interest in the project throughout its duration, remaining actively involved to ensure that project outputs meet public needs. Finally, the project assets are transferred to the ULB or the Project sponsor from the private sector partner at the end of a PPP contract.

PPP organizing at the Project levels entails few steps outlined below :

Formation of a Project Team including Advisory Groups:

The Project Team consists of professionals with a variety of competencies, such as legal, financial, technical, business/contracts, and other specialized areas relevant to a particular sector or project. The project team provides functional direction, ensures management and political buy-in and oversees project expenditures. It is also responsible for communications within the ULB and for overseeing and preparing project deliverables such as studies and technical reports. It also prepares and reviews submissions for approvals.

The Project Team must be led by the Project Manager whose role is crucial to the success of a project. The Project Manager must have analytical, financial, communications and negotiation skills, and should have the capacity to oversee and coordinate a wide range of issues (i.e. technical, financial, legal, public policy, etc.).

Sector-specific knowledge viz. Solid Waste Management, Drinking Water Supply & Sewerage, Surface Road Transportation, Street lighting; is also of great value.

Since the preparation of larger PPP projects can take 3 or more years, every effort should be made to ensure that the same individual selected as the PPP Project Manager is available to remain in the post for 3 years or longer. Appointing a new Project Manager in the middle of the preparation of a project can be detrimental to the success of the project.

All professionals need not be dedicated full-time to a specific project. Staff may be able to carry out other functions as long as their availability is assured and the project does not suffer because of conflicting demands or the need for approvals every time a professional is required at project meetings.

Staff members who will likely have subsequent responsibilities regarding contract oversight, monitoring and management should be incorporated into the project team as soon as possible, during the procurement phase, at the latest.

The responsibilities of a Project Team will vary during the project life cycle. At the beginning, a full-fledged Project Team may not be required.

Formation of a Project Office:

The Project Manager will also need to set up a Project office with appropriate administrative staff, space, and a suitable operating budget to ensure the smooth functioning and efficient operation of the project team. The secretariat will ensure careful document management and communications administration throughout the PPP project cycle. Well-kept project records are vital for a ULB to meet reporting – as well as potentially legal due to frequent disclosures needed under the Right to Information Act (RTI)- requirements.

Project decisions and communications with stakeholders should also be documented, while briefings should be recorded. At the beginning, full-fledged staffing may not be required.

Engaging External Consultants:

International experience has shown that PPPs have been most successfully carried out when Municipal Administration can call on the services of experienced PPP advisors both to help identify and analyze new PPP projects, as well as to structure, tender, and negotiate them.

While the ULBs have experienced civil engineers and accountants fully capable of technically analyzing, designing and managing new projects, PPP projects require additional specialized skills. PPPs entail the identification of risks, the analysis of how each risk influences the project's technical and financial viability and the drafting of contracts to carefully allocate these risks to the party best suited to manage them.

The Consultants should be hired at an early stage of the PPP project cycle. A project development advisor should be well-qualified specialists, with the requisite technical, financial and managerial expertise, who can provide practical recommendations and assistance in the entire tendering process including conducting PPP tenders, evaluating bids, negotiating contracts and decisions on tariff-adjustments, as needed.

12. MAKING PPPS WORK FOR THE POOR:

Public private partnerships can become a tool in improving the conditions of urban poor through delivery of basic services to the unserved classes. But for making the ppp work certain aspects need to be kept in mind.

- PPPs need to be integrated into National Poverty Reduction Strategies.
- Just as the nature of poverty is diverse, so too are its causes, hence diverse conditions of poverty and causes implies that poverty-reduction interventions must be tailored to diverse circumstances.
- Framing suitable pro-poor PPP strategies requires identification of market-viable options for reaching the poor. This can be achieved through public partnerships with community-based organizations.
- In order to understand the needs of the poor as customers, it is important that poverty assessments respond to the following:
    - Who are the poor?
    - Who do they currently obtain services?
    - What can they afford?
    - How are they organized?
    - What do they want?
- A variety of survey techniques can be used to "value" the willingness and ability of the poor to finance quasi-public goods. Such information is essential to frame relevant sector-specific strategies for linking private provision to the expressed-needs of the poor
- Actively involve representatives of the private sector (i.e. business councils, associations) and non-governmental organizations in the discussion of poverty reduction strategies for which PPPs may be appropriate.
- In terms of PPPs that directly provide services, there are many options that can be pursued, ranging widening access to investors, contracting-out services, introducing management contracting, concessions, BOT and BOOT investments, to divestiture of public assets. Choosing the PPP strategy that best suits the poverty reduction challenge requires an assessment of the likely costs and returns of different forms of PPP interventions, their institutional, technical and socio-political feasibility, and the transition costs from one set of public-private roles to another.
- The poverty reduction strategies that involve PPPs approaches should define joint goals, clarify and advocate clear public-private partnership vision and generate confidence and trust in this approach to delivering services. Such strategies should explain the:
    - rationale for modifying the role of the public and private sector (i.e. changing the terms of the partnership);
    - role of the public-private partnership, as a poverty-reducing intervention;
    - expected performance criteria, in terms of the expected gains that will be made by the poor, in terms of costs, access, or quality of services received; and
    - ultimate impact of the PPP on the poor;

- PPP policy frameworks must have solid political support, otherwise they will be vulnerable to changing political cycles. On-again, off-again support for PPP arrangements can be especially costly to the poor because of the time-required and high start-up costs associated with establishing PPP services in remote and low-income communities.
- To minimize risks of political interference, there is a need for highly specific contract terms to allow both parties to predict the profitability of venture and to facilitate informed investment decision-making.
- The degree to which the private sector will have an incentive to serve the poor, especially when their ability to pay is constrained, must be addressed if PPPs are to be an effective instrument for poverty reduction.
- Certain features in which PPPs are commonly undertaken may not serve the poor:
    - Service contracts: a combination of retention of ownership in the hands of government; transfer of design and construction risks to private sector; and short contract periods (e.g. between several months to a few years); provides limited incentive for whole-life-costing for the private sector, and causes the private sector to focus more on efficiency than reaching the poor;
    - Management contracts: retention of ownership in the hands of government; transfer of operating risk to private sector (with a fee, profit sharing); limited (usually around 3-5 years) span of contract period; provide more incentives to improve services to existing customers rather than to reaching the poor;
    - Build-Operate-Transfer (BOT): This has the potential of bypassing the poor unless the distribution system and/or network is upgraded and extended to un-served areas or areas populated by the poor. Private sector may design projects to be more cost-effective by bypassing poor customers and regions.
    - Concessions. These have the potential to benefit the poor if certain conditions are met i.e., universal service requirements, consumers orientation, effective monitoring. But experience suggests that in many countries such conditions are not commonly met, hence the poor don't necessarily benefit.
    - Divestiture: the poor may or may not benefit -- depending on the license conditions and the design of regulation (e.g, specification on universal coverage target, differentiation of services to meet the needs of the poor, affordability of tariff).
- Framing PPP policy objectives in a way that explicitly recognizes the importance of reaching the poor is essential if these are to be structured and motivated to play a positive developmental role. The most common way of doing this is to define universal service access as one of the major performance goals for any given PPP.

- The poor will generally be better served if providers compete for their business. In fact, the rationale for introducing PPPs is often to expand the range of service providers beyond traditional public sector monopolies and to inject a measure of dynamism and consumer-responsiveness to hitherto sheltered sectors. This can be accomplished by liberalizing the market, avoiding exclusivity, unbundling services and coordinating interconnection.
- Pro-poor tariff structure should be carefully designed as subsidies can drain the budget and dilute the pursuit of value-for-money.
- Pro-poor regulation is necessary to sustain mutual interests and benefits from PPPs projects.
- Good governance policy principles are especially important for making PPPs pro-poor.
- If a PPP is adequately capitalized, competitively financed, and has made adequate provisions to manage political, market, financial, institutional and external risks, than it is likely to provide services at a competitive price to all consumers, including the poor. If, on the other hand, such ventures are under-capitalized, financed at a high cost, or ill-prepared to manage likely risks, than the costs are liable to be excessive, and the long-run viability of the endeavor may be in doubt.
- Good standards of environmental and social practice will allow a PPP to anticipate and minimize adverse environmental and social impacts at the start, and to take proper action to mitigate adverse impacts.
- PPPs should be designed and deployed as a poverty reduction intervention, rather than simply for delivering services or easing the government's budgetary burden.
- PPPs can only serve the poor if they deliver value-for-money in the services they provide. This should involve:
    1. A move from input-based to output-based contracting, to instill a more sophisticated and cost effective approach to the management of risk by the public sector than is generally achieved by traditional, input based procurement.
    2. Relevant procurement processes, procedures and instruments
    3. Clear legal structure and legal due diligence to cater to contractual issues, define constraints to PPP implementation as well as project scope, and to enable long-term financing
    4. Creating effective regulatory institutions. This involves well-crafted checks-and-balances to create co-dependency, transparency, fairness and proportionality in project risk; effective user charges to safeguard consumer interests, and appropriate over-sight.
    5. Macro-economic stability. A stable macro-setting is required to facilitate planning and forecasting of project costs and returns, and for adequate regulatory oversight.

CONCLUSION

Public Private Partnership is a necessity in the delivery of municipal services and ensuring the implementation of the concept of good governance in municipal administration as financial situation of the Urban Local Bodies dose not allow them to take up the job themselves. But it is also clear from the above that Public Private Partnership should be encouraged with caution and utmost care should be taken in designing and implementing such a project. Political and official commitment should be ensured, policy framework should be clear and implemented strictly, supportive legal and regulatory frame work should be ensured, and sufficient information should be made available to all the stakeholders. The social approach must be kept in mind include incentives for collaboration with all stakeholders. Individuals and organizations with demonstrated skills in Public Private Partnership should be made part of the network. Sensible policies and some stable 'rules of the game' in terms of political decision-making are critical. A political system that can emphasize performance and in the process, protect vulnerable technical and organizational systems from capture and excessive interference is the key.

Public Private Partnership is strategic and relevant because with the help of this we intend to have good governance at the Urban Local Bodies, which would enhance the capacity of ULB's in the broad areas given below.

(a) Good Financial health of ULB's.

(b) Transparent Administration

(c) Effective and Responsive Administration

(d) Clean and green cities.

(e) Developing cities.

(f) Slum free cities.

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PUBLIC-PRIVATE COMMUNITY PARTNERSHIP (PPCP) CASE STUDY

1. The Case Study Of Alandur ULB.

Background of Public-Private Community Partnership (PPCP) in providing Urban Services :

Private sector participation (PSP) in providing urban services has grown rapidly in developing countries over the last decade. With rapid urbanization and population growth, ULBs are faced with an increasing shortage of resources to finance the growing demand for urban infrastructure and services and have turned to the private sector to finance, build, own, or manage urban services; and that's how PPPs were estaublished. However, in the past decade, long-term contracts guaranteeing a monopoly to the private investor have been the prevailing mode of engagement. Such contracts did not provide sufficient flexibility to adjust service standards and tariffs and to integrate community support for increasing and improving services to poor households.

Consequently, in order to reach the urban poor, contracts based on partnerships between the public, private, and civil society sectors have been proposed by a large number of Development Agencies viz. the Asian Development Bank (ADB) and the World Bank.

Currently, governments, the private sector, non-government organizations (NGOs), and community-based organizations (CBOs) are exploring innovative approaches to provide basic urban service to poor households that aim at higher coverage and better quality of services. However, little attention has been given to two issues:

(i) how large-scale private investments can be designed, which adequately cater to the needs of the poor; and

(ii) how small-scale community efforts can be scaled up and become an integral part of PSP in urban services for all citizens.

The section "Requirements and Techniques for Serving the Poor" publication of the ADB; lays out the basic requirements for each stakeholder—the Government, including central and municipal government, regulators, and government-appointed transaction advisers; civil society and the community; private operators; and donor agencies—over and above their usual tasks to ensure that future projects will be based on sound public-private-community partnerships (PPCP).

In future infrastructure projects, the ADB and other development partners are trying to include targeted funding for (i) extended service coverage, (ii) sanitation investments, (iii) social intermediation through NGOs, and (iv) financial assistance for scaling up systems of small-scale operators. In addition, the establishment of a pro-poor regulatory system, appropriate training of alternative (small-scale, NGOs, etc.) service providers to improve the quality of their services, training of government agencies to successfully engage small-scale providers, and of NGOs for efficient service provision is required.

PPCP in tandem with PPP :

The essence of these 'community partnerships' is the recognition that the features and merits of both public and private sectors are to be appreciated and unified, rather than polarised and colonised. These PPPs aim to engage the strengths of both sectors, private (more competitive and, in some instances, more efficient) and public (responsibility and accountability). PPPs are based on cooperation, not competition, to spread risks rather than reduce input costs through the competition mechanism. Rather than cede public activity to private organisations, these PPPs work to blur boundaries between state, markets and community (Hodge 2002).

Community partnerships involve joint decision-making rather than principal-agent relationships. Parties involved are engaged early in developing joint outputs and arrangements rather than government alone defining both problem and solution, then choosing the most cost effective private company for production or service delivery. It further differs from traditional contracting arrangement with longer-term time frames, potential for mutual adjustment, bigger financial flows and greater capacity for risks to be shifted to either side of the partnership (Hodge 2002:4; Langford 2002:69)

PPCP in core social sectors viz. Education, Health and Skills Development :

Importantly, the partnership between the funder and all providers in areas such as education enable sharing expertise across the public-private divide in both policy development and execution. Boase (2000) argues that such relationships are in the interests of community development through working together to achieve compatible (mutual) goals and with joint decision making and sharing of risk and goals. These community partnerships are congruent with the notion of education as a merit good with the 'public interest' defined through the partnership arrangement.

Although public-private partnerships have so far been rare in education, it seems that community partnerships might provide a useful framework within which education can be provided by capturing the public and private interests involved in education – on the one hand the right of societies to use the education system to reproduce its essential political, economic and social institutions through a common schooling experience, and on the other, the rights of parents to choose the experiences and values to which they expose their children (Levin 1999:125).

There are numerous 'recipes' for establishing and maintaining PPPs – all would make reference to collaboration or similar terms. This implies sharing of 'vision, authority, information, planning, decision making, financial risk, responsibility and accountability' (Langford 2002:69). However, for any PPCP to work effectively, a number of governance issues need to be resolved at the outset. If governments are indifferent about selecting public, community or private providers to deliver the collective benefits of education, it follows that systems of participation in policy development, goals setting, regulation, control and accountability should broadly be congruent between the different providers.

PPCP Case Study of Alandur Municipality, Tamil Nadu :

Alandur Municipality in Tamil Nadu has an estimated population of 137,000 in 1996 and is located in the Chennai metropolitan area. The municipality lacked an underground drainage and sewerage system, so it designed a project that would provide this service for its current population as well as for an estimated population of 300,000 in the year 2027.

The Chairman of Alandur Municipality Mr. R.S. Bharathi has enjoyed the unique distinction of getting elected by the constituents of Alandur for several years in a row; has been one of the strongest proponents of the Public-Private-Community Participation in which the Community has been one of the strongest pillars of support and in the infrastructure development. Mr. Bharathi is a strong believer in Community's participation in infrastructure development.

There has been resistance from the Community especially in accepting any new form of system with their participation especially financial contribution. Intensive Community Mobilization was undertaken in every ward by the Municipal Chairman Mr, R.S.Bharathi and his team officials. They went around with a mike, street by street from 6.30 am onwards for creating the environmental awareness with the civic associations. The Municipal Chairman had an earlier success in connection with providing drinking water- Palar water main line for the unserved area with the public funds support. The Municipal Chairman explained the public about the advantages of having an underground sewerage system; apart from maintaining healthy environment. Besides underground sewerage would not result in any stagnation of dirty water in low lying areas with mosquito breeding and unaesthetic appearance leading to diseases such as Malaria, etc. Ground water pollution would be avoided and the entire town would become free from pollution. The public will have a healthy atmosphere to live. The list of names of those who paid the deposit were displayed in the strategic corners of the town motivated others to pay.

The residents were convinced for remittance of Public Contribution. By June 2000 about 11,000 residents had deposited Rs.5000 each. The reasons for success of the scheme are as follows:

- Clear transparent process
- Involvement of beneficiaries at all stages
- Effective contract management
- Timely completion

The Budgeting of the Project is as below :

Cost of the project	: Rs. 34 Crores
Grant from TNUIFSL	: Rs. 3 Crores
Loan from TUFIDCO	: Rs. 16 Crores
Grant from TUFIDCO	: Rs. 1 Crore
Public Contribution- Estimated	: Rs. 8 Crores
(At present the total public contribution is Rs. 14.63 Crores)	
Interest from Deposits	: Rs. 2.46 Crores
Loan from TNUIFSL (Loan not availed)	: Rs. 4 Crores

Public Contribution Received was Rs. 14.63 Crores. The collection has been deposited with Tamil Nadu Power Finance Corporation @ 14.21% interest per annum and the Municipality received an interest of Rs.2.46 Crores upto the year 2005-06.

During the time of implementation of this Scheme, the Municipality was expected that only upto Rs.8.00 Crores would be received as Public Contribution; however defying all expectations a sum of Rs.14.76 crores was received as Public Contribution for this Scheme. Therefore the Municipality did not availed TNUIFSL loan for this Scheme.

The key elements of the project are :

a) Construction of a network of sewer pipelines and manholes, an underground drainage scheme of 120 kms;

b) Construction of a pumping house and installation of pumping machinery; and

c) Construction of a sewage treatment plant with a capacity of 24 million lts per day (MLD).

Implementation Arrangements : The Alandur municipality developed the project with assistance from the Tamil Nadu Urban Development Fund (TNUDF) and the Government of Tamil Nadu. Technical consultants for the project are Consulting Engineering Services. In order to minimize construction and design risks, the municipality plans to implement the project through an innovative contractual arrangement. In this arrangement the private operator has : (a) constructed the sewer collection system and pumping station through a regular contract; and (b) constructed and operated the sewage treatment plant on a build-own-operate-transfer (BOOT) basis. A comprehensive document clearly indicating the roles, risks, and responsibilities was developed to invite proposals from potential operators.

Financing Plan : Apart from Revenue already collected from one time deposits of Rs. 5000 and 10000 per connection for domestic and non-domestic users respectively; . The operator is expected to make a capital investment for the treatment plant and recover it over a period of 14 years. The local body will recover the costs through a combination of sewerage tax, sewerage charge, connection charges, general revenues and state government support. The sewerage charge was fixed at Rs. 150 per month per connection.

Alandur Waste Water Treatment at Glance :

- Works at Alandur – undertaken after commissioning a study to access the feasibility of the project based on user charges.
- Suggested tariff rate to cover O&M expenses, debt servicing and sinking fund allocation;
- Deposit mobilization :
    - From household : Rs.5,000/-
    - From commercial and industrial customers : Rs.10,000/-
- Cross-subsidy scheme for fixation of tariff:
- Household : Commercial : Industrial Users = 1:3:5
- Initial tariff in Alandur fixed at Rs.150 per house per month as required tariff of Rs.180 phpm. Tariff to increase at 6% per annum.
- Innovative contracting procedure adopted. The successful bidder has undertaken all the following:
    - Construction of conveyance system through regular World Bank Works' Contract
    - Construction of STP through BOT format backed by Supply or Pay mechanism.
    - O&M Contract at fixed annual fees over a five year period.
- Administrative sanction has already been issued by GoTN for Alandur Underground Schemes;
- Contract awarded in Nov '99.

- The supervision of works undertaken by an independent private sector Project Management Consultant;
- Works completed in October 2002

PROJECT PARTICULARS :

- Sewer Network
- Total Length 120 km
- Main Sewer 19 km
- Minor Sewer 101 km
- Per Capita Sewage 80 lpd
- Terminal Pumping station 1 no.
- Pumping Main 6 km
- Sewage Treatment Plant
- Ultimate Capacity 24 MLD
- Type Activated Sludge

2. Provision Of Sanitation Facilities For Slum Dwellers In Municipal Corporation Of Greater Mumbai. * *YASHDA, Pune*

Situation Before The Initiative

- About 60% population (6.9 million) of Mumbai lives in slums. The toilet blocks in these slums are provided by agencies like MCGM, MHADA and private parties. The maintenance of most of the toilet blocks falls under the purview of MCGM. The toilet blocks are mostly load bearing structures.
- Lifespan of these toilet blocks is about 810 years. Due to coastal climate, and rough usage by the local slum dwellers, most of the toilets get destructed before their estimated life span.
- There is no facility of water and electricity in these toilet blocks. Due to lack of maintenance the toilets frequently get choked, become unhygienic and unhealthy for use. Therefore, these blocks are used for dumping garbage.
- MCGM and MHADA are the main bodies to provide sanitation facilities in slums. MCGM is held responsible for the maintenance of these toilet blocks.

Description of the initiative

- To avoid the recurring expenditure of MCGM on sanitation, certain guidelines have been formed under the Slum Sanitation Program (SSP) for improving the sanitary conditions in slums.
- The program involves consultation with communities regarding the facilities to be provided and their participation in the implementation of subsequent operations.
- The Slum sanitation Program is also focused on creating awareness and alleviating health risks through community capacity building and improving the urban environmental conditions.
- Government of Maharashtra (GoM) has enacted an Act entitled "Maharashtra Slum Areas Improvement and Redevelopment Act, 1971", which has been modified in March 2001 by adding a clause stating that in case a slum dweller is required to be evicted in the larger interest of public and if the slum is a

protected structure, (existing before 1995), the slum dweller/s shall be provided with an alternative accommodation admeasuring 225 sq.ft. in the nearby areas with other civic facilities like water, sanitation and roads provided.

- The scheme involves construction of new toilet blocks, retrofitting of old toilet blocks, demolition and reconstruction of the old toilet blocks in RCC having a life span of about 30 years.
- Priority is given to connect reconstructed toilet block to municipal sewer line. Construction of septic tank is the other alternatives in case the connection with municipal sewer line is not possible.
- A monthly pass is issued to the members on payment of Rs.20 to 30 per family depending upon the locality and their expenditure.
- The features and facilities provided in the toilet blocks constructed under the SSP are:
    - RCC construction with the usage of good quality construction material and a design life of 30 years.
    - Rooms for caretakers, bath and urinals and children's squatting platforms.
    - Provision of suction and overhead tanks with pumps.
    - Provision of electricity for lighting and running the water pumps.

Resource Mobilization

- The capital expenditure in constructing the toilet blocks is born by MCGM through the funding provided by the World Bank under the Bombay Sewage Disposal Project.
- The slum residents have to form a Community Based Organization (CBO), by registering itself with the Charity Commissioner. The CBOs so formed will take care of the operation and maintenance of the toilet blocks constructed under SSP.
- The guidelines for the formation of Community Based Organization for construction of toilet blocks under Slum Sanitation Program are given below:

How a CBO is formed & functions

- The applicant should make an application addressed to the Chief Engineer in the prescribed format and should send a copy of this application to the Assistant Municipal Commissioner of the ward.
- It is also required to submit a list of members of each household joining the CBO.
- The Charity Commissioner should be contracted for new registration of CBO along with the required documents.
- An upfront contribution of Rs.100/- per adult, limited to Rs.500/- per family for construction of toilet blocks (approximately 50 users per seat) has to be collected.
- The money is deposited in a joint account of CBO and MCGM.

- Two members of the CBO are nominated to sign the plan and design of the toilet blocks. These members should also coordinate with MCGM during the construction of toilet blocks.
- CBO is required to pay necessary deposits to obtain water and electricity connections.
- Toilet block constructed by MCGM are taken over by CBOs. CBO is required to sign a MoU with MCGM before taking over the charge.
- On handing over the facilities to CBOs, the names of MCGM officials are taken out from the joint account. Thereafter, the amount for the operation and maintenance of the facilities goes entirely into the CBO accounts.

Problems Faced

- Slum dwellers resisted cooperating initially. This was due to the change from availing a free facility to a pay, use and maintain facility.
- The formation of CBOs is a time taking process as issuing of NOC from the Municipal Corporation and from the landowner takes time.
- Sometimes lack of availability of land causes major hindrance to the process.
- Collection of individual or family contribution towards the scheme was a tough task.
- Getting permission for water supply, power and drainage connections is also a time taking process.
- The program initially started with a slow pace with only 2-3 communities participating in the initial two years of the program. However, it has picked up the speed after March 2002 when Government of Maharashtra (GoM) issued a Government Resolution (GR) for uniform slum sanitation policies for all types of schemes and de-marking the areas where such agency was required to function. The GR has now established a policy under which all the future sanitation schemes will be carried out.

Results Achieved

- At present 281 toilet blocks are being constructed, out of which 134 toilet blocks (2700 seats) have been commissioned and are handed over to CBOs. The remaining toilet blocks are at different stages of progress.
- Out of five sites contracted for retrofitting of old toilet blocks, two sites have been completed and commissioned.
- At four places where construction of RCC toilets was not possible, MCGM has provided two mobile toilets, which have been commissioned and handed over to the communities in the year 2001.
- The target till the end of December 2003 is to construct about 400 toilet blocks (8000 seats).
- The approximate cost of construction per seat is Rs.70,000 that includes the cost of water supply and electricity connections.
- The operation and maintenance cost is totally born by the community (Rs.5000 per seat as corpus amount).

Newly constructed toilet block under SSP

Sr. No.	Agency	Toilet Blocks	% Toilet Blocks
1	CBOs	217	2
2	Community/ Owner	2191	23
3	Government	17	Negligible
4	MCGM	2734	28
5	MHADA	4318	45
6	NGOs/ Pvt. bodies	36	Negligible
8	Sulabh Sauchlaya	152	2
	TOTAL	9665	100

Lessons Learned

- Slum dwellers once convinced about the authenticity of the purpose, are willing to pay for availing services.

Sustainability

- The commitment of the slum dwellers and sustainability of the scheme can be gauged from the clause of the monthly contribution of Rs. 20-30 per family for operation and maintenance expenses. Payments of caretaker, cleanliness, electricity and water supply bills are managed from these funds.
- The scheme has been able to create a sense of ownership of a facility to the slum dwellers and the corporation shall benefit by saving on the cost of maintenance of these toilet blocks.