Experiences with PPP in Rail Projects

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Presentation Structure

- Key Drivers for Rail PPP
- Structures and Models
- Success factors
- Areas for Rail PPP
- Indian Experience of PPP
## Key Drivers for Rail PPPs

### Changing Environment
- Higher Economic Growth in Asia
- Population Growth
- Higher Urbanisation
- Environment issues

### Need for private capital
- Reducing Government Financial Support
- Need for growth in Infrastructure
- Interest of private investors/strategic Investors

### Need for Efficiency and Costs
- Reducing costs of labour and O&M
- Better Asset Utilisation
- Safety and Reliability
- Reducing Time and Cost overrun

### Need for Quality and Innovation
- Growing Customer Expectations
- New Technology and Modernisation
- Providing seamless logistic solutions
• Critical services may take time to implement under the PPP model
## Risk Allocation in Railway Projects

<table>
<thead>
<tr>
<th>Risk</th>
<th>Allocation</th>
<th>Remarks</th>
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<tbody>
<tr>
<td>Planning</td>
<td>Public</td>
<td>Flexibility is required</td>
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<tr>
<td>Design &amp; Construction Risk</td>
<td>Private</td>
<td>Railways should be responsible if the design parameters are changed</td>
</tr>
<tr>
<td>Operating and Technology Obsolescence</td>
<td>Private</td>
<td>Penalties for failure to meet service requirements. Technology obsolescence can be because of Railways insistence on particular technology</td>
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<tr>
<td>Demand</td>
<td>Private/ Public</td>
<td>Should be supported by penalties</td>
</tr>
<tr>
<td>Residual Value</td>
<td>Private</td>
<td>Fitness of purpose to be ensured</td>
</tr>
<tr>
<td>Financing</td>
<td>Private</td>
<td></td>
</tr>
<tr>
<td>Legislative</td>
<td>Public</td>
<td></td>
</tr>
<tr>
<td>Force majeure</td>
<td>Private/Public</td>
<td>Insurable risks to be transferred to private</td>
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## Success Factors

<table>
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<tr>
<th>Integration of Economic Interests</th>
<th>Transparency</th>
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<tr>
<td>• Avoid business cases driven by each party</td>
<td>• Clear costing mechanism</td>
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<tr>
<td></td>
<td>• Facilitate competition</td>
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<td>• Measurable performance indicators</td>
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<tr>
<th>Long Term Financial Engagement</th>
<th>Appropriate Risk Allocation</th>
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<tr>
<td>• Arrangements for future asset maintenance and expansion</td>
<td>• Allocate risks to party which has better control on risk</td>
</tr>
<tr>
<td>• Realistic revenue projections and Traffic guarantees</td>
<td>• Utilise key strengths and capabilities</td>
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<td>• Strong commitment of stakeholders</td>
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<th>Project Preparation</th>
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<tr>
<td>• Streamlining licenses / permits; expedite land acquisition</td>
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<tr>
<td>• Clear definition of project scope and objectives</td>
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<tr>
<td>• Standardized documentation</td>
</tr>
<tr>
<td>• Flexibility in choosing PPP arrangements-Choose a structure which suits the project and desired level of control</td>
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Areas for Rail PPP

**Infrastructure**
- Freight Lines
- Metro Lines
- High Speed Lines
- Terminals
- Multi modal logistic Parks
- Production Units

**Operations**
- Container Trains
- Passenger High end services
- Terminal Operations

**Services**
- Hospitality & Tourism
- Catering
- Preservation of Heritage
- All on Board services
Why PPP difficult in Rail Sector

• In other sectors PPP project:
  – implementation gives control to private concessionaire over design, construction, maintenance, operation & revenue collection.
  – Reasonable control over business with non-competing facilities.
  – Facilities are generally standalone.

• In Railways, rail connectivity is a part of the network with train operation being a network activity. By policy IR is the only train operator.
  – Private Operation on IR network not permissible.
  – Maintenance on passenger intensive lines generally not given to concessionaire on safety issues
  – Tariff freedom cannot be given
  – Competing facilities can enhance traffic risk.
  – Shortage of rolling stock or congestion on IR network will impact project viability
PPP-Indian Experience

Joint venture Route for Port Connectivity's

• 267 km Surendranagar-Pipavav GC
• 301 km Kutch Railway Company
• 189 km Hassan Manglore GC
• 301km Gandhidham-Palanpur GC
• 112km Krishnapatnam Port New line
• 82km Haridas Paradeep New Line
• 62km Bharuch Dahej GC
• Angul Sukinda NL in pipeline
• Likely Generation of non railway resources US$ 800 million

Container Operations

15 Container operators granted permission for providing Container Services generating US $ 500 million between 2006-2010

Elevated Rail Corridor, Mumbai

• DBFOT Concession to private sector
• Utility shifting by IR
• Cost estimated as US $ 4.5 billion
• Pre Bid on 16th November 2012

Non Government Private Lines

• Mundra Port Connectivity with payment of User Charges from IR
• Full financing, O&M by Private owner
• Access charge to IR
PPP-Indian Experience

Wagon Investment Schemes

• Own your wagon scheme between 1992-2005 generated US $250 million
• Wagon Investment Scheme generated between 2005-2008 US $300 million.

Private Freight Terminals

• A new business opportunity to the investor who gets rail access to handle third party cargo.
• 33 Applications for PFT have been received

World Class Stations

• 50 stations identified
• Separate company Indian railway Station Development Corporation formed

Wagon Leasing Schemes

• M/s. GATX and M/s Touax-Texmaco have been registered under the scheme as Wagon leasing companies
Port Connectivity Projects-JV Route

**Salient Features**

- Partnership with Strategic Partners for Equity and formation of company
- Debt is raised on a pre-determined debt-equity ratio
- Project execution with assured funding under a construction agreement with SPV
- Apportionment of revenue on pro-rata distance basis
- Expenses recovered from SPV on a fixed and variable cost basis
- Asset to get transferred to IR after shareholders get the mutually agreed return on investment
- 30 year concession

**Government Role**

- Initial Project Development, land acquisition and arrange Clearances
- Fixing Design parameters
- Part Equity payment (minor)
- O&M given under contract by JV
- Bear Cost of Passenger train operation
- Collect Revenue and than apportion

**Strategic Investor Role**

- Equity Payments
- Traffic Guarantees

**Agreements**

Shareholder Agreement, Concession Agreement, Construction Agreement, O&M Agreement, Traffic Guarantee Agreement
Lessons learned

Over -coming Obstacles

• Define clear objectives and measurable goals that need to be achieved through PPP
• Prepare and Plan for PPP implementation
• Transparency in Bids
• Strong PPP organisation
• Commitment from top
• Avoid Multiplicity of Roles of Government Agency (Partner, Overseer, Arbitrator)
• Balance the interests of investors and public
• Accurate cost allocation
• Clear policy on competing routes
• Transparent guidelines for revenue sharing- NTKM or trains or wagons?
• Regulatory Mechanism to be in place

Moving with Caution

• Capping of Returns for Investors
• Monopolistic Rights to Investors

Forward Looking Approach

• Clear and Transparent Concession terms
• Give SPV freedom to operate and expand business
• Allow Construction, Maintenance and Operations to non government agencies for achieving true private sector efficiencies
• Give freedom to own assets and to provide services on SPV decided tariffs
Thank You

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