PUBLIC PRIVATE PARTNERSHIP IN GRAIN STORAGE
THE WORLD BANK & IFC
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THE SECOND ‘P’ IN PPP
How Can the Private Sector participate Better?

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‘Building a Sustainable Growth Story’

From the farm ...to the plant ...to the table

...with Brands  ...with Products  ...with Leadership
Product portfolio

“Celebrate the taste of happiness with everyone”
LT FOODS HAS ACQUIRED EXPERTISE IN SILOS IN THE PPP MODE
and,
CONTINUALLY EVALUATES THEM AS POSSIBLE BUSINESS OPPORTUNITY

• Currently operating 50000 MT wheat storage facility in Amritsar (Punjab). Project conceptualised by IFC

• Now constructing two similar projects at Bhopal and Indore in MP

• Participating in bids being invited by FCI for rail linked complexes

• Part of advisory group to Indian Planning Commission on the drafting of model concession agreement for silo complexes in PPP mode

• Interacts with other Indian companies of similar interests, as also, global equipment suppliers
OUR LEARNING OVER PAST DECADE

1. In a country where land is scarce, silos provide an effective answer
2. PPP projects require careful identification and selection of potential bidders
3. Grain storage requires specialized know how. Silos are not just construction projects
4. Private sector investment currently is cautious owning to long gestation periods and fluctuating government regulation.
5. Guarantee period for assured revenue streams must be fixed judiciously
6. Provision for review of contractual provisions after, say, 10 years to cater for unforeseen contingencies & changed circumstances
MODERN WHEAT STORAGE COMPLEX IN AMRITSAR

• PUNGRAIN approached IFC in 2009 to examine problems in current storage of wheat and to recommend a solution involving the private sector in a PPP mode

• Issues with the existing storage system:
  – Inadequate storage space and quality in relation to increasing production
  – Problem greater in wheat than for rice
  – Thus need for a long term, scientific storage to:
    • Supplement storage space in the state
    • Preserve grains for a longer period
    • Reduce losses due to deterioration
    • Assist in national objective of achieving food security
THE PUNGRAIN PROJECT

- Project conceptualized with inputs from reputed consultants
  - International technical consultants – SNC Lavalin Agro (France)
  - Domestic technical consultants – Mott MacDonald
  - Legal experts – Trilegal
- Detailed technical studies carried out, costing done
- Intensive market sounding with private players
- Bid documents issued to 33 bidders
- Bids actually received from 5 bidders
- Project awarded in May 2010, work commenced October 2010, completed May 2011
PROJECT SUMMARY

• **Scope**: finance, design, construct, commission, operate, maintain, repair, and renew the silos facility on own land

• **PPP Model**: BOO – operator free to use the facility for private purpose after the concession term

• **Term**: 30 years

• **Capacity**: 50,000 MT

• **Payment**: A capacity based Fixed Service Charge + Variable Charge

• **Bidding Parameter**: Revenue desired

• **Guarantee** PUNGRAIN, a public sector entity of Punjab government
LEGAL FRAMEWORK

• PUNGRAIN
  – Main objectives as per MOA include procurement, storage and distribution of wheat grains
  – It can enter into contracts, concessions, leases or other arrangements with third parties to carry out its objectives

• Legislative framework
  – Warehousing as an activity falls under the purview of Entry 33 of the concurrent list of Constitution of India
  – Central Legislation:
    • The Food Safety and Standards Act, 2006
  – State Legislation:
    • Punjab Warehouses Act, 1957
    • The Punjab Agricultural Produce Markets Act, 1961
The Project won an Award in the ‘Gold Class’ for maximum impact on the lives of the poor.
THE PUBLIC-PRIVATE-PARTNERSHIP

On account of fiscal constraints, governments are turning to PPP

- Allows the State to ‘outsource’ part of their obligations
- Unequal participating entities
- Agreement and NOT a Contract
- PPP operates at the boundary of the public and private sectors, being neither nationalized nor privatized.

*The key will be to create an enabling environment, an attitudinal shift on both sides*
CHALLENGES TO PPP IN INDIA

1. Lack of a Regulatory environment to arbitrate between two entities
2. Lack of Information – publically available data base / case studies etc
3. Project Development phase is critical. Without sufficient clarity can lead to delays, mispricing and thus withdrawal of interest by private sector
4. Financial institutions need assurance of revenue streams before agreeing to advance debt
5. Role of consultants is hugely important as governments alone cannot attend to all technical and procedural criteria
6. Qualification criteria for potential bidders needs fine tuning to attract best of private sector
7. L1 System needs re look, both for appointing Consultants and for identifying successful bidder.
VARIOUS MODELS BEING EXPERIMENTED IN INDIA

- Over past few years much thought has gone into examining what could be a solution to efficient storage of India’s grain mountains.
- GOI, Planning Commission, FCI, State Governments & private sector have been involved in this process.

- The Adani Model – BOO with revenue as bid criteria
- The Pungrain Model – PPP, BOO with revenue as bid criteria
- The FCI Model – PPP, BOO with rail siding and revenue as bid criteria
- The MP Model – PPP, BOT with VGF as the bidding criteria, first State to launch this initiative
THE MCA

A well articulated and well understood framework to address complexities and balance needs of the State, Investors and Users

An MCA inspires confidence, thus investment, lays down specifications, operating standards, performance benchmark, incentives & penalties

- Unbundles risk, allocates risk & reward
- Reduces capital costs through technical innovation
- Provides for dispute redressal
- Precision & predictability in revenues, at least for guaranteed period

BUT EVEN THIS IS NOT ENOUGH ...
THE PARTNERSHIP QUOIENT

1. THE PUBLIC PARTY – allocate clear land, ‘set’ the stage and ensure achievement of targets, adherence to standards

2. THE PRIVATE PARTY – deploy capital, bring in expertise and efficiency faithfully honor all obligations

In practice, both have fallen short
SO, WHERE DO WE GO FROM HERE?

1. Set realistic targets
2. Provide for managing Uncertainty
3. Build capacities – among civil servants, private sector managers and Banks / lending institutions

The **three** most important things for getting PPP right

1. Attitude
2. Attitude
3. Attitude
IN CONCLUSION

- Sufficient Indian knowhow - with government agencies at Centre and with States, Consultants and the private sector - is now available to provide sustainable scale up

- Such expertise can be shared with other developing countries

- World Bank & IFC can play a crucial role here
THANK YOU

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