Karnataka extends water PPP programme

The south Indian state is planning to roll out water PPPs in 16 towns across the state. The challenge will be to structure contracts that balance the interests of all stakeholders.

The Indian state of Karnataka is planning to implement continuous water supply projects – commonly referred to as 24/7 water supply projects – in 16 small and medium towns across the state.

The projects – which are expected to involve capital investment of INR11 billion ($200 million) – will be overseen by the Karnataka Urban Water Supply and Drainage Board (KUWSDB), the state government entity responsible for driving the implementation of water supply and underground drainage projects in 213 urban areas in the state, with the exception of Bangalore city.

"The 16 initiatives will be funded partly by grants extended by state and central government and partly by the private sector," T. Thimme Gowda, chief engineer at KUWSDB, told GWI. "Detailed project reports for all the projects are complete and are being reviewed by the state cabinet to decide on project funding. Tendering will commence once these are cleared by the State," he said.

The selected towns are predominantly residential, with little industrial and commercial activity. Overall, the water tariff revenue and scope for cross-subsidisation is limited, while the investment required is substantial. Considering the variation in water availability, industrial activity, geography and expected revenue realisation across the towns, the Karnataka Urban Infrastructure Development and Finance Corporation (KUIDFC), the state government entity responsible for coordinating, facilitating and implementing urban infrastructure development, is considering two broad project structures.

The first would involve state and central governments funding 100% of the project, with a private sector management consultant running the project on the basis of an agreed fee. The second option would be a performance-based PPP, where the private sector entity would contribute a nominal percentage of the project's capital cost.

The allocation of risks and the expectation of improvements in service delivery and performance have been contentious issues for many PPP contracts in India in the past, due in large part to the relative inexperience of public sector institutions in contracting PPPs.

The recent award of a 25-year lease contract by Nagpur to a consortium of Veolia and Vishvaraj – where the government retained risks pertaining to furnishing and paying for raw water supply and electricity – marked something of a turning point, with agreement being reached on an equity lock-in period and strict exit conditions.

"The Nagpur concession was structured well, but it is difficult to replicate the Nagpur model everywhere, as different cities have different requirements. I see more performance-based operations and maintenance-type projects than PPP concessions in the market," said Rishabh Sethi, executive director at Indian project developer SPML Infra. "To have successful PPPs, contracts should have a well-defined scope of work, and reasonable expectations of improvement from the developer. It should have scope for price escalation and renegotiation, based on a fixed IRR for the developer," he told GWI.

In general, with the cost of credit ranging from 13-15%, private firms expect to make an internal rate of return (IRR) on invested capital of 17-20% over the lives of the contracts.

The planned PPP projects in Karnataka come on the back of a successful 24/7 water supply pilot in the Hubli-Dharwad-Gulbarga area, executed by Veolia. A full-scale water supply concession to cover the towns of Hubli, Dharwad and Gulbarga with continuous water supply is being tendered.

One further infrastructure initiative being promoted by KUIDFC – the so-called "City Cluster Development" – is also planned to involve private sector participation. The project, which is expected to cost upwards of INR10 billion ($182 million), aims to develop up to eight nodal towns within a 20-50km radius of state capital Bangalore in order to ease the stress on city's infrastructure. "The project is at a conceptual stage and it is expected that 30-40% of the total project cost will be for water supply and sanitation infrastructure development," according to Swati Dongre, assistant manager at KUIDFC.