



DECENTRALISATION &
LOCAL GOVERNANCE



External Support for Decentralization Reforms & Local Governance Systems in the Asia Pacific: Better Performance, Higher Impact?



Cities Development Initiative for Asia

Alternative ways of Financing Urban Development

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ADB, DeLoG Training Manila, August 2015



BMZ



Federal Ministry
for Economic Cooperation
and Development



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GOVERNMENT
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Federal Department of Economic Affairs,
Education and Research EAER
State Secretariat for Economic Affairs SECO

Mandate

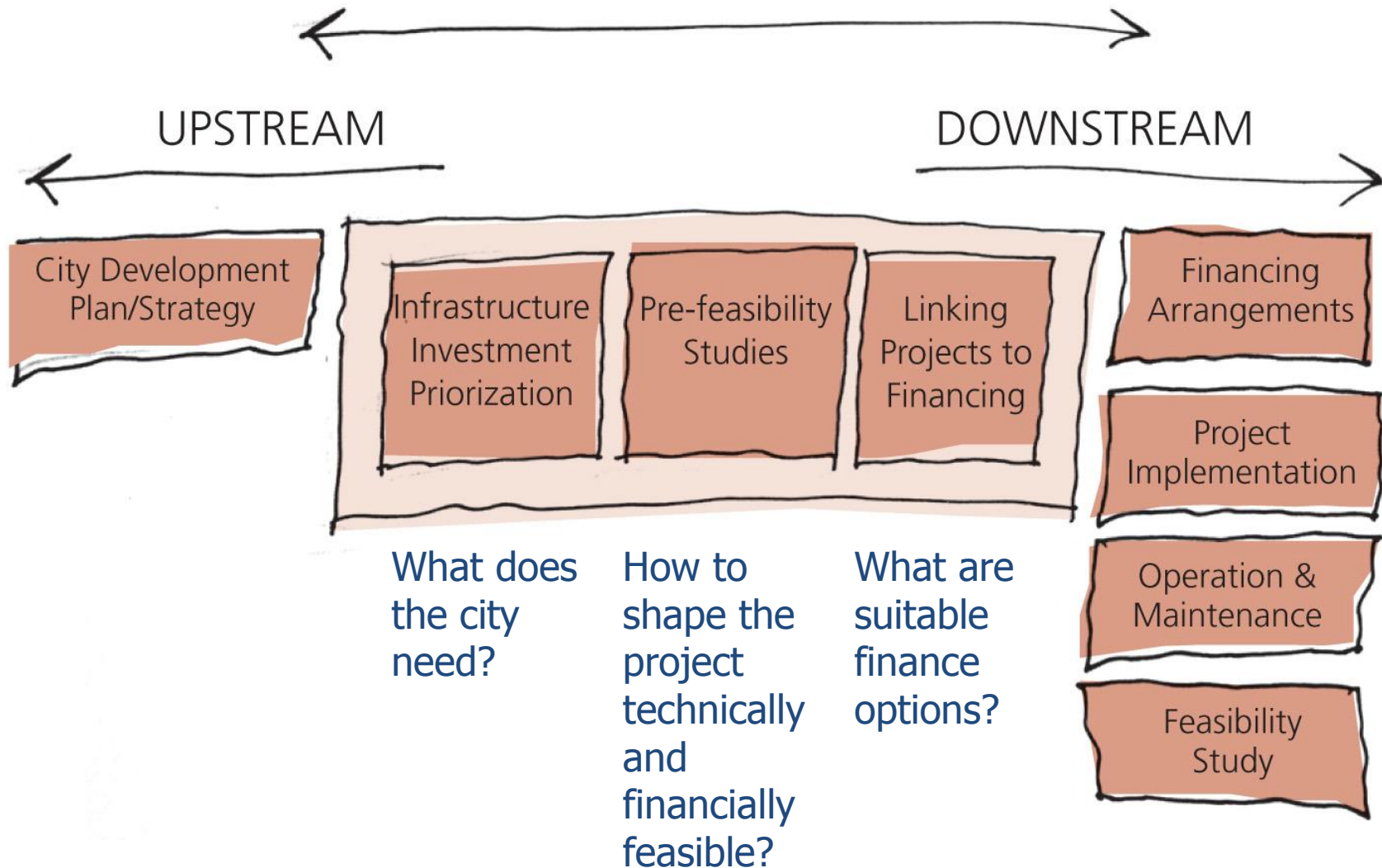
CDIA provides assistance to medium-sized Asian cities to bridge the gap between their development plans and the implementation of their infrastructure investments.



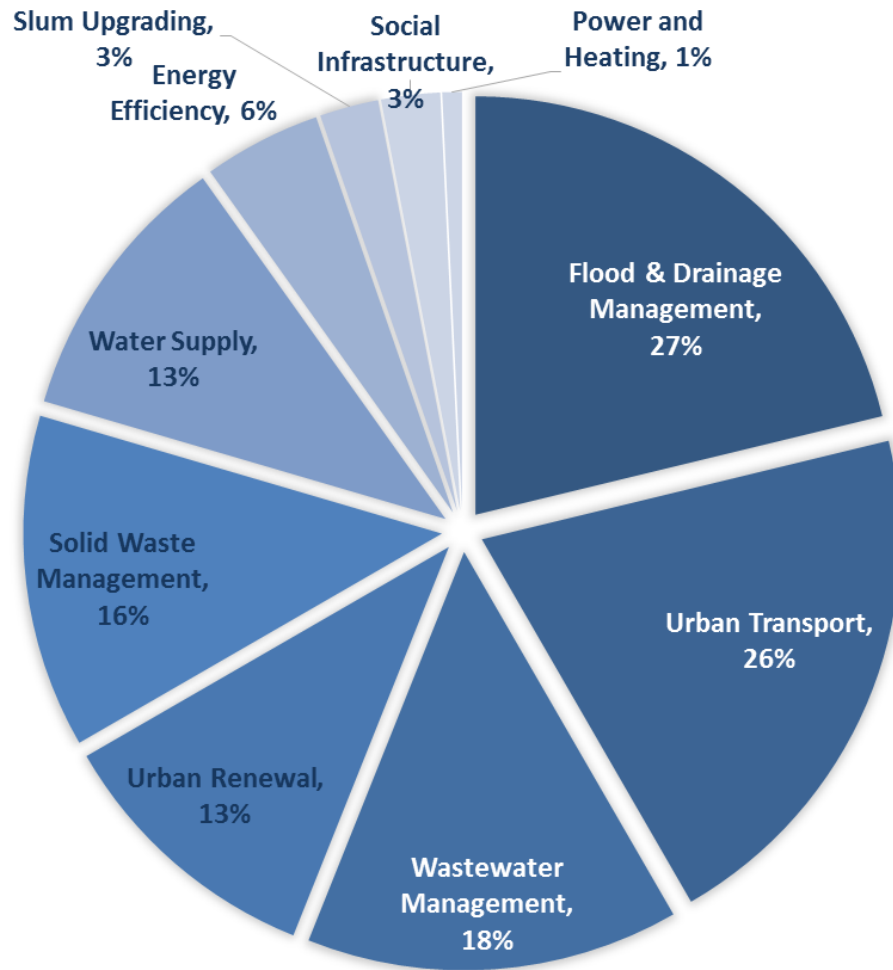
CDIA supports the identification and development of urban investment projects and links them with potential financiers.



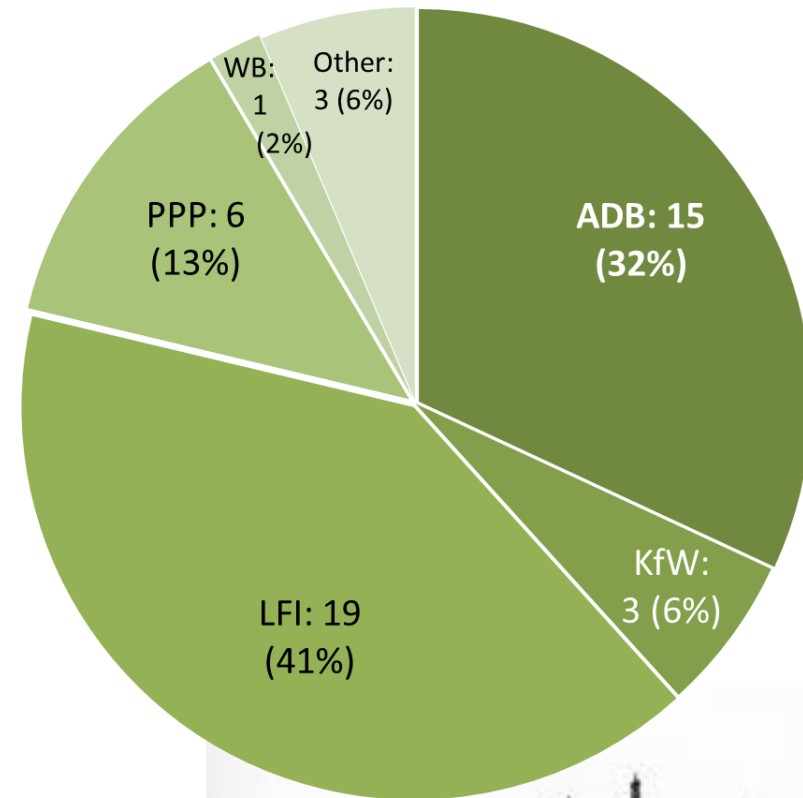
Infrastructure Investment Cycle



Pre-feasibility Study Sectors



PFS linked to finance per financing stream



LFI:

national or local financing institution (incl. city's own resources)

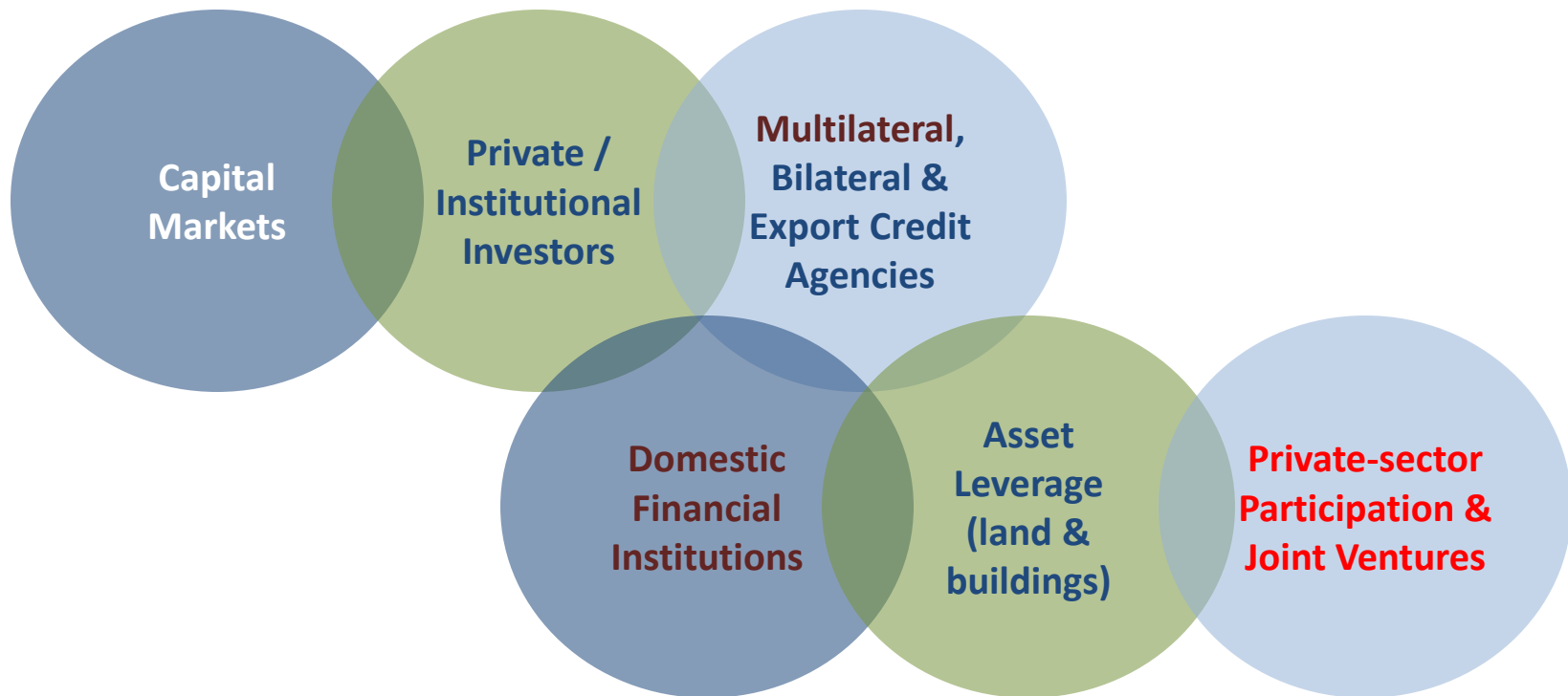
Other:

1 commercial borrowing
2 AustralianAid



Linking to Finance – Options Available

Step 1: Ascertain availability / conditions associated with alternative capital financing sources



Linking to Finance – Local Conditions

Step 2: Public sector partners play a major role in enhancing project viability by adopting multiple private sector risk mitigation measures

Institutional Capacity:

- Overlapping jurisdictions
- Staff skills & experience
- (Unrealistic) expectations

Regulation:

- Permitted rate of return
- Tariff amendments
- Performance requirements
- Licensing

Governance / Transparency:

- Shareholding & voting rules
- Decision making rules
- External & internal reporting / auditing
- Financial management
- Information accuracy & availability

Financing / Fiscal:

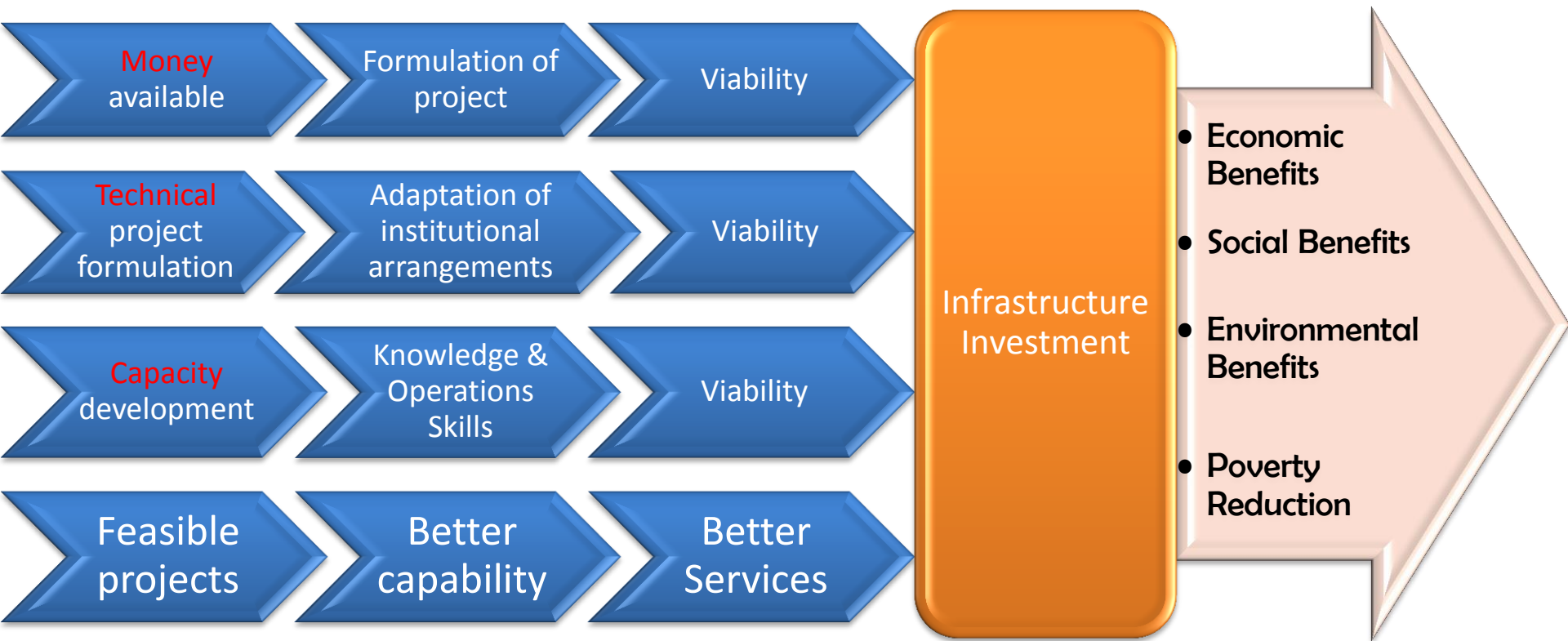
- Tax rules & incentives (income, import, etc.)
- Guarantees (credit & investment, political & commercial)
- Local financial markets
- Debt / equity requirements
- Currency rules

Legal / Contractual:

- Form of PPP
- Off-take arrangements
- Land access & title
- Labour laws
- Environment & social liabilities

Linking to Finance – PPP Assessment

Step 3: Examine feasibility for establishing a potentially valuable working relationship between the public and private sector



Bhopal, India – Solid Waste Mgt., 2015

Project components

- 1 MSW Collection System
- 2 Street Sweepers
- 3 MSW Transfer System
- 4 Adampur MSW Treatment and Disposal System
- 5 Adampur Closure

Support Programs

- I. Community Engagement and Participation
- II. Informal Recycling Support
- III. Institutional Strengthening

Due Diligence

- I. Environmental Due Diligence
- II. Rehabilitation and Resettlement
- III. Design and Construction Supervision

Funding Options and their Pros & Cons

Funding Source	Effective Rate	Tenor
Government	Mostly grant	NA
International (IFI) ADB/WB/JICA/KfW	5 to 8%	12 to 30 years
Domestic (DFI) HUDCO/IL&FS/Banks	10.5 to 13%	10 to 15 years
Bond Market	8 to 12%	7 to 12 years
PPP	Expected rate of return high	7 to 25 years concession period



Bhopal, India – Solid Waste Management, 2015 – PPP

Project Analysis with focus on

- Estimation of Tipping Fee (Bid Variable)
- Financial Impact on BMC under different Scenarios
- Cost Recovery for BMC (existing O&M recovery is very low; tariff revision)
- EPC Cost – US\$ 49 Million

Project Structuring – PPP Mode

Sources	Scenario1	Scenario2	Scenario3	Scenario4
	With DFI Loan	With IFI Loan	With GOMP Subsidy Loan With O&M Grant	with 70% IFI
GOI Grant under Swachh Bharat	20%	20%	20%	-
GOMP – Grant	30%	30%	30%	-
GOMP Subsidised loan	-	-	20%	-
Domestic FIs	20%	-	-	70%
International FIs	-	20%	-	-
PPP	30%	30%	30%	30%
Total	100%	100%	100%	100%

Iloilo-Guimaras, Philippines – Ferry Terminal, 2008

CDIA support	USD 150,000 for a Pre-Feasibility Study
Estimated investment value	USD 9.23 million
Source of financing	PPP with Injap Investments



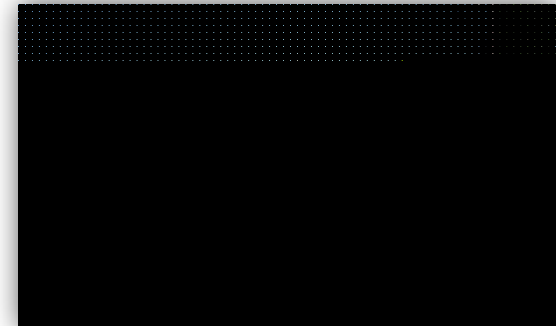
Presidential Proclamation:

- Awarded 1.6 hectare property to Iloilo City for development of a ferry port with mixed use commercial facilities, recreational park and car-park
- Existing Philippine Coast Guard facility to be relocated adjacent to the Philippine Ports Authority passenger domestic sea transport terminal
- Department of Environment and Natural Resources also provided space for its regional office

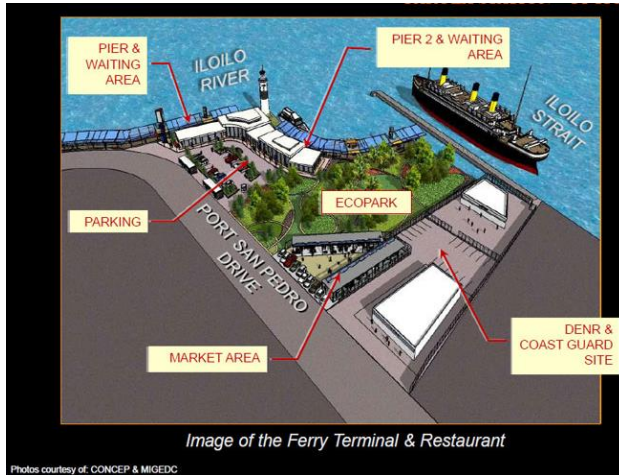


PPP agreement agreed with Injap Investments:

USD 3.4 million commitment for property development &
Notice to Proceed issued in November 2012

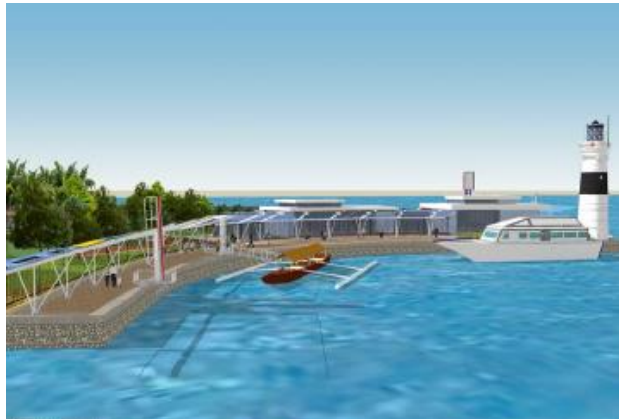


Project Outcome



Project start delayed due to a nuisance claim over the property – work got underway in Aug. 2013

Certain council members believed they had a ‘vested right’ over the project and were expecting some form of gratuity from the private party – Mayor postponed project until council elections



Construction is ongoing but the ferry terminal already enhances commuting and contributes to tourism between Iloilo City and Guimaras Province

Funding for the remaining \$6 million planned investment still needs to be found

General Observations on PPP

PPP is in essence a procurement strategy, frequently adopted for:

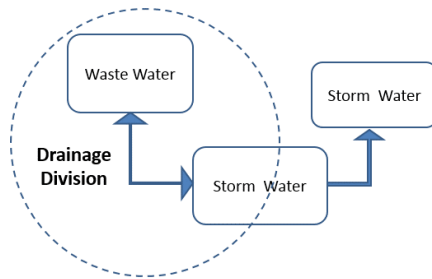
- *Ideological* (reduce the role of the state)
- *Fiscal* (off national balance sheet financing) &
- *Wishful thinking* (the private sector IS the solution)

Where PPP is determined to be the best approach:

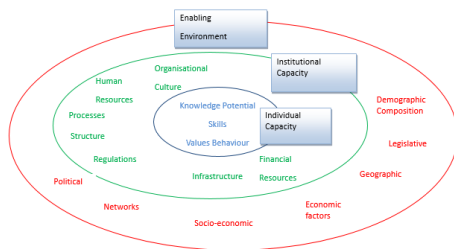
1. Attract a sufficient number of (qualified) bidders and sometimes needs to be re-tendered
2. Contract design is critical:
 - i. Risk sharing is never perfectly managed but needs to be reasonably well balanced
 - ii. Strong, measurable and enforceable performance / output obligations required
 - iii. Flexibility clauses incorporated to enable contract adaptation to new circumstances
3. Implementation (organisational) framework – needs to be transparent and accountable
4. Long term commitment – so avoid short term thinking as, ultimately, the public sector will have to “pick up the pieces” if the contract fails

Urban Governance and Institutional Strengthening

Structural changes



Capacity Building



Participation

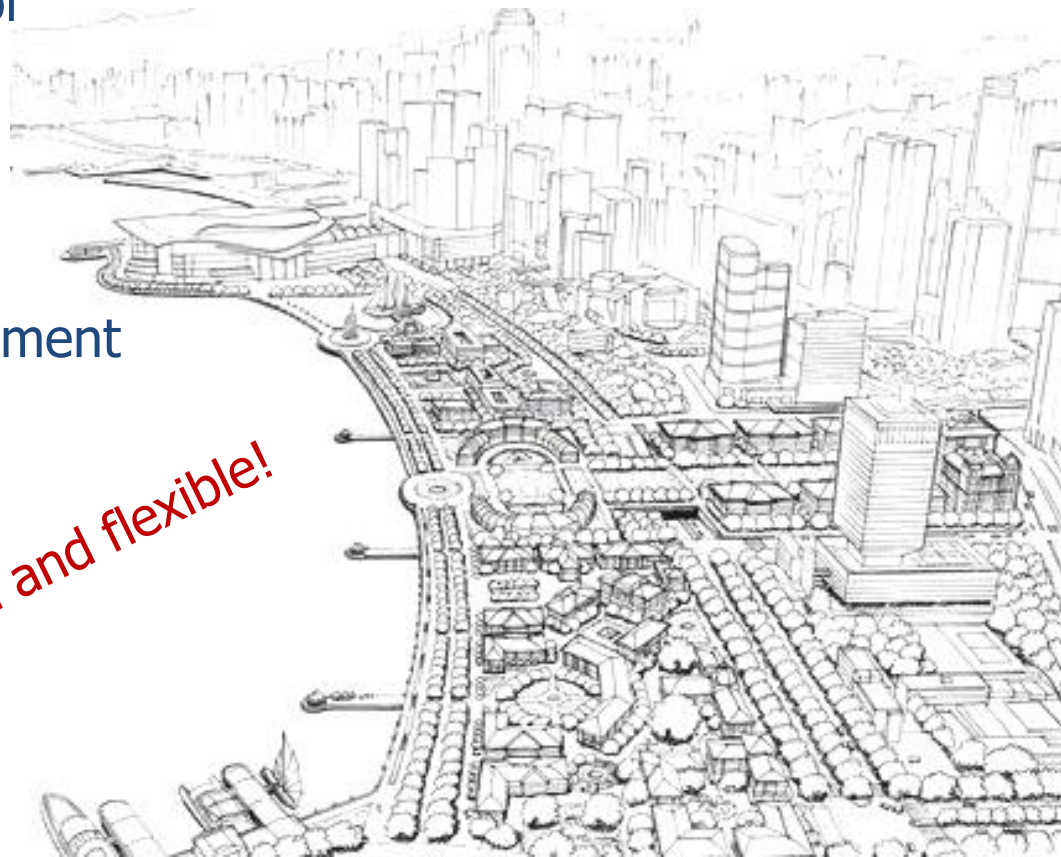
- Steering Committee
- Working Group
- Regular Meetings
- Public Events



Adapt to the need of the city and its financier!

- What? – Infrastructure sector
- Where? – Boundaries
- How? – Local conditions
- Who? – Stakeholder involvement
- When? – Time frame

Demand-driven and flexible!





Cities Development Initiative for Asia

Investing in Asia's urban future

Thank You

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GIZ HQ, Eschborn, August 2015

