



Privatisation and reform in the



Allard Nooy

Mr Allard Nooy is Chief Executive Officer of Jindal Water Infrastructure Ltd. and Jindal Urban Infrastructure Ltd. Both companies are part of the O.P. Jindal Group, a \$12 bn conglomerate with established leadership positions in steel, mining, power, energy, infrastructure, water, wastewater and solid waste management. In his capacity Mr Allard Nooy is P&L and operationally responsible for Jindal Water Infrastructure and Jindal Urban Infrastructure and leads the development and implementation of the growth strategy. Allard Nooy holds a Bachelor of Science (Eng) in Engineering Management and an MBA in International Business.

Introduction to the O.P. Jindal Group

JITF Aquasource is the water services arm of the O.P. Jindal group, which was formed in 1952. The group's turnover is about \$12 billion, with a market capitalisation of approximately \$30 billion. The company employs around 85,000 people in many locations across all continents, including the Americas, Asia, and Europe.

There are four distinct capital investment arms in the group. Jindal SAW is a manufacturer of pipes. Jindal ITF, which is part of Jindal SAW, is further divided into three groups; I am in charge of the infrastructure division.

We currently have two joint ventures running under the water infrastructure division. One company, which we have set up in partnership with Manila Water, aims to reduce non-revenue water production and increase 24/7 water supply through public-private partnerships (PPPs). The other joint venture, with Japanese firm Kobelco, is looking at industrial water and wastewater. These two companies were formed with the objective of providing first class water and wastewater services. In addition JITF Ecopolis is active in solid waste management and renewable energy.

Challenges and opportunities

Where we work, there is a growing requirement for water and wastewater services. This is related in particular to increasing levels of urbanisation, middle class growth, and increasing industrialisation. Our challenge is how to deliver these capital intensive assets, taking into account various environmental concerns, legislation, and meeting quality standards.

Part of the solution to the problem is to enlist the private sector to deliver these outputs in a given time frame and at cost. In my view, the private sector is best placed to deliver the best value in a short time frame, due to the fact that the private sector takes a project life cost approach, rather than the capex and recurrent budget approach used by the public sector.

Globally, there is still a large part of the

Indian market

world's population with inadequate access to water supply and wastewater services. Current expenditure in the sector is estimated at \$80 billion/yr, and as demand for water services continues to grow, governments are increasingly finding themselves under pressure to meet the additional investment needed.

The Indian scenario

With approximately 16% of the world's population, but only 4% of global water resources, there is a definite demand gap in Indian water needs. This creates a huge pressure to ensure that existing resources are further developed, conserved, and used efficiently.

Despite this need, average annual per capita availability of water has decreased significantly since the 1950s and continues to drop. There is a high proportion of non-revenue and unaccounted for water, estimated at around 60%, low levels of metering and a lack of incentives for public utilities to address these issues. In some states, industrialisation is already being held back by inadequate water supply.

In addition to poor supply, water storage capacity in India is also quite poor, with less than a quarter of the per capita storage capacity of China. It is estimated that around \$6 billion would be required to meet growing demand.

The last three decades have seen many key developments in the regulatory framework governing water policy in India. However, there are still inconsistencies between different government departments, and a lack of communication and coordination between ministries. Still, legislation continues to be developed, and that is a good sign.

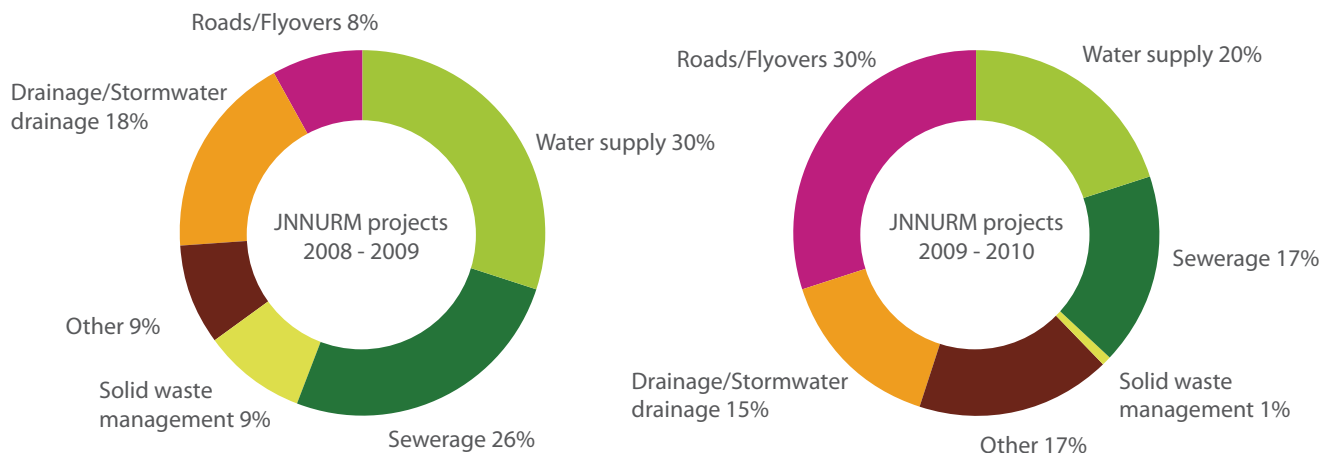
Government initiatives and the JNNURM

There are a number of initiatives currently aimed at enhancing PPPs in water and sanitation, spearheaded by central government, and aimed at providing "gap-funding" to ensure the financial viability of water projects.

The primary objective for the government is that there will be planned development under

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Projects sanctioned under JNNURM



Source: Jindal Water Infrastructure Ltd.



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the Jawaharlal Nehru National Urban Renewal Mission (JNNURM), and that this initiative will be coordinated across departments and across states.

Experience over recent years has shown that a significant proportion of the projects sanctioned under the JNNURM have been focused specifically on improving water and sanitation.

Wastewater in India

As much as 30% of India's wastewater is actually being discharged without any treatment. Wastewater treatment coverage is poor, with a gap between wastewater generated and wastewater treated that has been widening over time (see the figure below).

Tariff reforms

Just five or six years ago, private sector participation in the water sector was not at all encouraged. While some foreign consultancy services were allowed by the Indian government, actual project implementation was a purely domestic undertaking.

That situation has completely changed, with PPPs being actively sought, driven in part by the experience of the transport sector, where PPPs have been shown to deliver projects successfully, on time, and within budget.

There is still, however, a problem with tariffs, which are set at a regional level, in a very fragmented market. Tariffs are currently very low, leading to poor cost recovery. This in turn leads to insufficient income, which leads to underinvestment in the water and wastewater infrastructure, which results in poor service delivery (see the figure to the bottom right).

Bringing in a user pay principle, with affordable tariffs, improved collection methods and a more commercial mindset, would result in an overall better service for the customer – notably through the provision of 24/7 water supply – and would in the long run reduce costs.

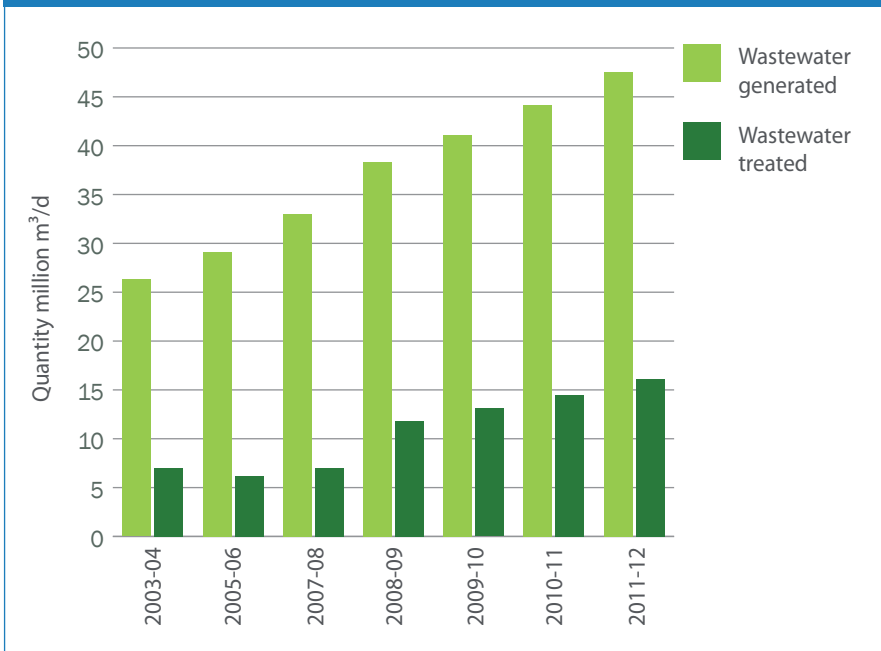
Key PPP success factors

The first key step to ensure the successful adoption of a PPP project is the twin promotion of the user pay and polluter pay principles. To achieve this, supporting regulation is required, with enforced cut-off policies where customers do not pay. These principles must be reflected in clear contractual agreements that are put in place, and that identify the roles and responsibilities of all parties.

Indian PPP project experience

What we have seen in recent experience is that advisors have been retained by state governments, municipal corporations and other government bodies but have not been setting the right performance indicators, or have not instituted the correct contractual models. This is not wholly surprising, as the whole concept of

Wastewater generation and treatment levels in India



Source: Jindal Water Infrastructure Ltd.

using PPPs is relatively new to India.

My advice, therefore, would be to try to get the right advisors, who already have project experience from other countries with similar backgrounds, and learning from the mistakes that have been made elsewhere – particularly in the developing world.

The main problems currently are that minimum offtake obligations are not being documented and met and thorough market analysis is not being carried out. There are widespread tariff payment shortfalls which need to be addressed, either through improved collection or through subsidisation for the sector of the population that is genuinely unable to pay. Tariff adjustments also need to be better defined in contractual agreements. Finally, creditworthiness needs to be better established, and financial risks better shared across the board.

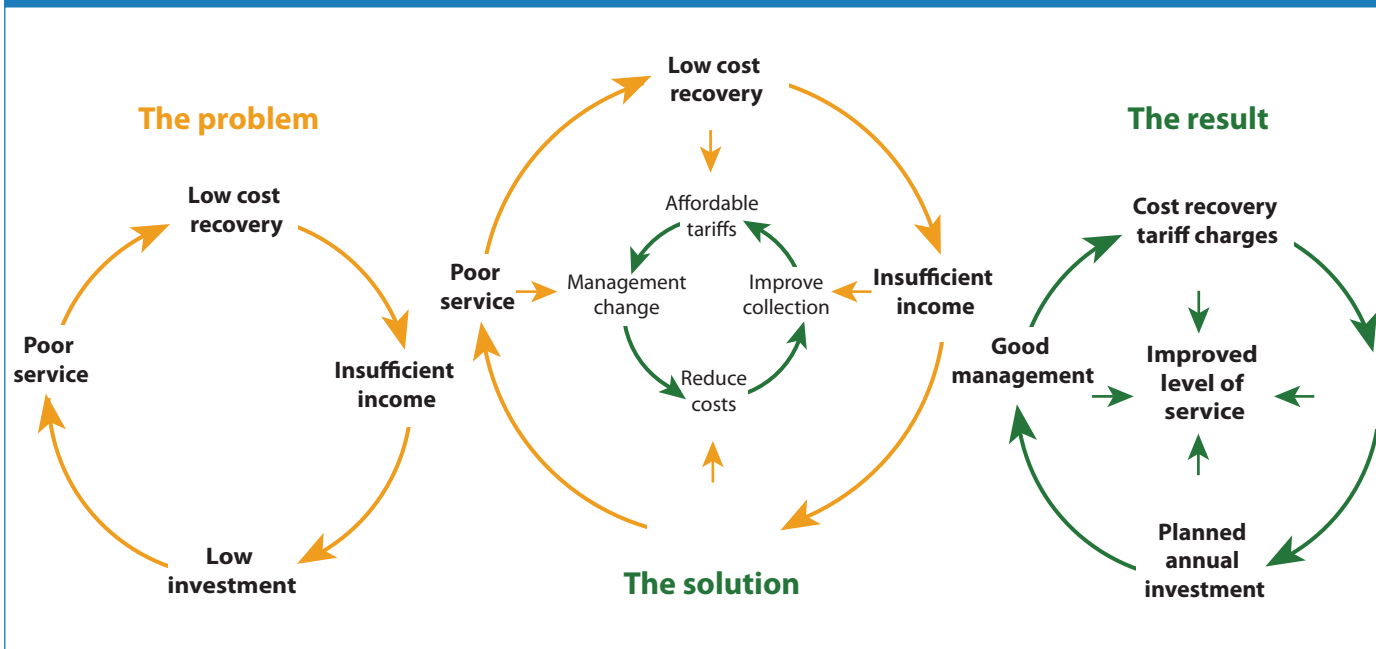
Recommendations for structured PPPs

Key performance indicators (KPIs) should be set to realistic levels, and should conform to world best-practice standards. Planned construction periods should also be set to realistic levels, depending on the complexity of the project. Disconnection policies must be made clear from the outset, in order to discourage non-payment.

We recommend that a capex review be undertaken every 5 years in connection with achieving and maintaining KPIs, with tariff adjustments. Risks should be well defined, and apportioned to the party that is best able to manage them. If these principles are adhered to then the public-private partnerships can be a successful and rewarding experience for all parties concerned.

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The tariff reform process



Source: Jindal Water Infrastructure Ltd.