



Public-Private Partnership Stories

India: Punjab Silos



Photo © Robert Churchill/iStockPhoto

India has been successful in developing agriculture in its fertile northern belt, resulting in an abundance of grain. Unfortunately, its ability to store it has lagged behind. Today, India has neither the capacity nor facilities to store grain safely, leading to excessive losses through exposure, deterioration and pests. Poor inventory management has only added to the problem. In response, the Government of Punjab, India's leading agricultural state, turned to IFC to structure a pilot public-private partnership to address this issue. The resulting concession—the first of its kind in India at the state level—was awarded in May 2010.

LT Foods, a leading exporter of basmati rice with a strong distribution network, won the 30-year concession to build and operate modern, temperature-controlled steel grain silos with a capacity of 50,000 metric tons. The facility enhances India's ability to meet its food security objectives by increasing storage capacity, reducing losses, and increasing the efficiency of purchasing and distributing grain. If successful, the pilot could be expanded to add capacity of 2.5 million metric tons in Punjab alone.

This series provides an overview of public-private partnership stories in various infrastructure sectors, where IFC was the lead advisor.

IFC Advisory Services in
Public-Private Partnerships
2121 Pennsylvania Ave. NW
Washington D.C. 20433
ifc.org/ppp

The project was implemented with the financial support of DevCo, a multi-donor facility affiliated with the Private Infrastructure Development Group. DevCo provides critical financial support for important infrastructure transactions in the poorest countries, helping boost economic growth and combat poverty. DevCo is funded by the UK's Department for International Development (DFID), the Austrian Development Agency, the Dutch Ministry of Foreign Affairs, the Swedish International Development Agency, and IFC.

BACKGROUND

India, with more than 1.2 billion mouths to feed, has taken food security very seriously. The Green Revolution, which introduced high-yield seeds in the 1960s, helped India become one of the world's top grain producers. Today, India manages its food security by procuring, storing and distributing grain, mainly wheat and rice, through the Food Corporation of India (FCI), a public enterprise wholly owned by the Government of India. FCI procures most of its grain from farmers at guaranteed prices.

The government's efforts have been successful, leading to the procurement of record amounts of grain. But success has exposed shortcomings in India's ability to store it: FCI faces shortage of storage space for 10 million tons of wheat. Most grain is stored in low-quality, government-owned structures using open-air cover and plinth (CAP) facilities. Inefficient inventory management systems compound the problem. As a result, there are losses in terms of both quantity and nutritional value.

In Punjab, which produces more food than any other state in India (22 percent of the national total), the problem is particularly acute, with a shortage in storage capacity of seven million tons. In response, the state government launched a pilot public-private partnership to allow a private firm to build, own and operate a 50,000 metric ton storage facility, using modern technology and inventory management methods.

IFC'S ROLE

IFC acted as Lead Transaction Advisor to the Punjab agency for food-grain procurement, Punjab State Grains Procurement Corporation (PUNGRAIN), in designing and implementing the transaction. The IFC team conducted thorough due diligence on technical, financial, legal, social and environmental issues to establish the viability of the project and recommend a sound transaction structure. IFC supported PUNGRAIN throughout the bidding process: helped prepare bid documents, evaluate technical and financial proposals, and draft the concession agreement. IFC also provided advice on the business case for using a modern grain storage facility, which incurs higher operating costs but significantly reduces losses. It also demonstrated how the private sector helps the national government support its food security policies.

The project is the first of its kind to be commissioned by an Indian state government. If the pilot is successful, the Government of Punjab may expand the program, adding as much as 2.5 million metric tons of capacity to its grain storage system.

TRANSACTION STRUCTURE

The transaction was structured as a 30-year concession, in which the winning bidder is responsible for the financing, construction, operation, and maintenance of a 50,000 metric ton grain storage facility. The concessionaire was required to purchase land, build the facility and be prepared for grain storage operations before

the concession agreement will be in force. At the end of the concession, the operator will be able to use the facility for private purposes. IFC estimated the total project cost, including the cost of land and preliminary expenses, at approximately INR 400 million (\$8 million).

PUNGRAIN is responsible for grain procurement, payment of guaranteed storage service charges, and regulation of the private sector operations. It agreed to pay a guaranteed fixed service charge, regardless of the capacity used, to reduce operating risks to the concessionaire. It also agreed to pay variable services charges for handling wheat grain on each reception and dispatch from the silos.

BIDDING

Bidders were required to demonstrate technical capacity and experience in constructing, operating and maintaining grain storage facilities and have a minimum net worth of INR 50 million (100 million in the case of a consortium). The amount of the fixed service charge was the main criterion for selection of the winning bidder from among the technically qualified bidders.

The project drew interest from 33 bidders, including five international players and several leading commodity trading companies from India. Of these, 19 participated in the pre-bid conference and five submitted formal proposals. LT Foods, a mid-size Indian rice exporter, and distributor with a market capitalization of \$22.5 million, won the bid. The project was awarded in May 2010.

EXPECTED POST-TENDER RESULTS

- Grain losses due to weather, rot and pests will be reduced significantly, reducing purchasing and storage costs to government.
- The transaction is expected to mobilize \$8 million in private investment.
- Savings are estimated to reach \$6 million during the concession period.
- Served as a pilot for a similar program, on a much larger scale, under development by IFC for the Government of Pakistan (Punjab and Sindh provinces).

10/2011