



# Public-Private Partnership Stories

## India: Odisha Rice Storage PPP



India manages its food security by procuring, storing and distributing grain, mainly wheat and rice. One of the largest producers of rice is the state of Odisha. But the state does not have sufficient capacity to store grain safely, leading to excessive losses through exposure, deterioration, and pests, which contributes to food insecurity and decreased nutritional value. This is a major problem in a country with high child malnutrition rates, and hinders the state's ability to respond to natural disasters and food crises. To address this, the GoO, with support from IFC, formulated the Odisha State Private Entrepreneur Guarantee Scheme in 2013 (OSPEG) to harness private sector investment and expertise in developing scientific rice storage facilities in Odisha. In this context, the Odisha State Civil Supplies Corporation Limited (OSCSC), the implementation agency under OSPEG and the custodian of the strategic food reserves for the poor, requested IFC's support in setting up rice storage facilities on a Public Private Partnership (PPP) basis.

The project was organized into two phases, each outlining fourteen locations. OSCSC successfully bid out the project to develop, finance, and maintain scientific rice storage facilities in 28 locations around the State of Odisha. The concession agreements for the first phase were signed in 2015 and the second phase in March 2017.

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

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*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

The GoO identified inadequate rice storage infrastructure as a major food security issue for the state. In addition to loss of product and the loss of nutritional value when improperly stored, inadequate storage hindered the state's capacity to respond in an emergency, which is a concern as Odisha suffers periodically from cyclones and other natural disasters. To solve this challenge, OSCSC decided to partner with the private sector through PPPs to:

- increase scientific storage capacity in Odisha, improve storage practices, and reduce storage losses
- increase paddy procurement by the GoO to prevent farmers from being forced to sell their surplus at prices below the minimum support price provided by the state
- optimize transportation costs and time for distributing rice and other essential commodities in Odisha
- demonstrate the viability of large-scale private sector participation and investment in the agri-business sector in Odisha
- encourage local entrepreneurs to invest in Odisha by entering into long-term partnerships with the GoO.

## IFC'S ROLE

As lead transaction advisor to OSCSC, IFC designed and implemented the transaction, which included:

- **Policy Support:** IFC assisted GoO in preparing the OSPEG in 2013, which facilitated the development and operation of rice warehouses on PPP basis.
- **Storage Capacity Gap Assessment:** IFC assessed allotment and storage capacity based on current and planned procurement.
- **Location and Capacity Identification:** IFC prepared a state-wide plan for the development of warehouses based on the mapping of production and consumption centers, road connectivity, existing capacity, upcoming projects, etc.
- **Legal Due Diligence:** IFC ensured compliance with the conditions outlined in Essential Commodities Act, Warehousing Development & Regulations Act, Orissa Warehousing Act, and OSCSC Operations Guidelines.
- **Financial Assessment:** IFC assessed the financial feasibility of the project considering the capital subsidy to evaluate the expected storage charge.
- **Market Assessment:** IFC facilitated discussions with potential investors to gauge commercial viability of the project, investor interest, and enable optimal project structuring.
- **Bidding Strategy:** Given the large-scale of the project and various project locations, IFC recommended OSPSC bid out individual locations rather than packaging locations. IFC supported OSPSC in prequalifying potential investors, drafting bidding documents, and ensuring a competitive and transparent bidding process.

## TRANSACTION STRUCTURE

For all 28 locations across the state, private operators are required to design and build the scientific storage facilities of 2,500 MT

each, finance the construction, provide operation and maintenance (O&M) services, maintain rice quality as per national standards, provide handling services, and at each location, private operators are responsible—at their own cost—for procuring the land for the development of storage facilities. Private operators will also make guaranteed tonnage available to OSCSC, as specified in the Agreement.

Starting on the operations date, private operators for each project location will earn (i) the respective storage rental quoted in their financial proposal, and (ii) the handling and preservation charges, as notified by OSCSC for each financial year. The private operators will also be entitled to receive a capital subsidy of US \$35 per metric ton to be disbursed in two instalments.

## BIDDING

To identify the implementation partners, a two-stage bid process was adopted. The bidding process started and a Request for Qualification (RfQ) was launched, with several stakeholder consultations with perspective bidders. The results: 41 applicants qualified for the tenders. The 28 project locations were won by 22 different bidders. For the first batch of 14 locations, the project was awarded to the bidders who quoted the lowest storage rental per metric ton per annum. A second phase with another 14 locations was rolled out on a similar basis but with the O&M responsibility retained by OSCSC.

## EXPECTED POST-TENDER RESULTS

- Most of the projects in these 28 locations are already commissioned and are operational
- The project will help create an additional 70,000 metric tons of rice storage capacity in the state.
- The project will provide food security with increased nutritional value for the poor in remote locations in Odisha and help the state be better prepared to provide food during an emergency.
- Mobilized US \$3 million in private investment from small, local entrepreneurs.
- The project demonstrated the viability of private investment in Odisha's agri-business sector, with OSCSC now implementing projects in 16 additional locations in the state and already completing bidding for a third round.

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