



Public-Private Partnership Stories

India: Bhubaneswar Affordable Housing



Odisha, a low-income state in India, with a population of over 43 million has witnessed an annual urban growth of 27% per annum over the last decade. This rapid urbanization has posed a number of challenges for the city, including an estimated shortage of 410,000 homes. With approximately 23% of people in the state residing in slums in the capital city of Bhubaneswar, there is an estimated shortage of 80,000 housing units, specifically for low income families. With a view to bridging this gap, the Bhubaneswar Development Authority (BDA) formulated the “Policy on Housing for All in Urban Areas” and asked IFC to provide transaction advisory assistance for the country’s first ever Public Private Partnership (PPP) for Affordable Housing.

In December 2016, the consortium of Shyam Indus Power Solutions Private Limited and GSBA Builders Private Limited was awarded the project after offering the lowest government subsidy to build the affordable housing. The consortium incorporated a special purpose vehicle (SPV) named Paramitra Smart Infra Private Limited and signed an eight-year Development Agreement with BDA.

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

IFC
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 has a severe shortage of affordable urban housing, a sector with very little private sector participation, especially for families with an annual income of under \$4,600. This has led to severe shortages of quality housing for the economically weaker sections (EWS) of the population, who are often forced to live in slums or slum like conditions. The State of Odisha launched its “Policy for Housing for All in Urban Areas” in 2015 to develop affordable housing units for low-income groups (LIG) and EWS under various models, including Public-Private Partnerships (PPP). Through this, the Government of Odisha aims to develop 410,000 affordable housing units, of which 80,000 would be in Bhubaneswar, with the BDA planning to create 10,000 units by 2020.

IFC’S ROLE

IFC carried out technical, commercial, and legal due diligence, designed the transaction structure, drafted bid documents, and assisted throughout the bidding process. IFC also analyzed similar projects in India and across the world to identify best practices and potential impediments and integrated the findings in the project design. Over the course of IFC’s support for BDA (2013-2017), the project saw three major changes, the first related to the housing policy. The GoO already had a housing policy in place when the project started. During project structuring, IFC identified several gaps in the framework and advised on modifications that led to important changes and a re-release of the “Policy for Housing for All in Urban Areas” in 2015. Secondly, the project site was changed midway in the project, which necessitated new technical studies and revisions to the bid documents. Thirdly, the transaction structure had to be aligned with a new act (Real Estate Regulation Act, 2016) notified by the Government of India.

TRANSACTION STRUCTURE

The project was one of the first real estate PPPs to be structured under the “Real Estate Regulatory Authority Act” (RERA), which was enacted in 2016 to regulate the real estate market. With no precedent of aligning PPPs to RERA, IFC conducted extensive stakeholder consultations and legal review to ensure that the project was in complete alignment with this landmark act.

The project site is a total of 20.21 acres. Under the PPP, the Developer will design, finance, construct and handback 2,600 affordable housing units on 13.71 acres free of cost to BDA. This will be done over a period of 36 months, with an interim requirement to handback at least 800 units within 24 months. In lieu, the Concessionaire would be given free hold rights on the balance of 6.5 acres, with the transfer of this land also being done in two phases in proportion to completion of affordable housing units. The Concessionaire would have a right to construct a commercial project on this land (like high income residential housing) to recover its investments. The project also integrates financial assistance available to the EWS beneficiaries under national government scheme (Pradhan Mantri Awas Yojna), under which the affordable housing units will be offered to beneficiaries at a subsidized cost of \$2,300.

Another feature of the transaction structure is the requirement of the Developer to address any structural deficiencies in the affordable housing units identified within 5 years from the date of handback, and simultaneously creating a maintenance account with \$500,000, interest income from which would be used later to undertake ongoing maintenance of the affordable housing units. This ensured that the project would not be a mere construction contract and that the Concessionaire would be obligated even after project handover to ensure the quality of its construction.

Lastly, IFC studied various international cases and saw that housing finance was a key requirement for success. Even though the EWS beneficiaries were getting part subsidy from the Government of India, they would still be required to secure loans from financing institutions. To overcome this obstacle, IFC consulted various housing finance institutions for inputs, helped line up potential lenders, and required the Developer to organize loan fairs to ensure that adequate support is provided to EWS beneficiaries to access the financing they need to purchase their homes.

The bid documents drafted by IFC for this project have now been standardized by the BDA and GoO to implement similar projects.

BIDDING

On December 15, 2016 a single stage bidding process was commenced by the BDA. Three bids were received and the consortium of Shyam Indus Power Solutions Private Limited and GSBA Builders Private Limited quoted the lowest subsidy and was awarded the Project.

EXPECTED POST-TENDER RESULTS

- 2,600 affordable housing units built for families earning less than US \$2,800 per year.
- Improvement in the living conditions of approximately 10,000 persons belonging to the EWS category.
- \$70 million in private sector investment in Odisha’s affordable housing stock;