Course: e-Governance Project Lifecycle

Day 2: Session 4

Introduction to Business Models
Agenda

- Introduction to business/implementation models
- Implementation, pricing/payment models for e-Governance projects
- Strategic considerations for evaluation of implementation models
- Evaluation of benefits and risk for various implementation models
### e-Governance Project Lifecycle

<table>
<thead>
<tr>
<th>Step</th>
<th>Activities/Responsibilities</th>
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<tbody>
<tr>
<td>Vision &amp; Strategy Development</td>
<td>Stakeholder Needs Assessment, Define clear vision &amp; objectives, Prioritization of services and projects, Incorporate domestic and global learnings, Identify institutional structures &amp; capacities for implementation, Define funding requirements, Define monitoring and evaluation approach.</td>
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<tr>
<td>Current State Assessment</td>
<td>Critical assessment of current business processes and pain areas, Best practices in similar environments, Assess legal framework and current limitations, Assess current ICT systems and their ability to support future plans, Assessment of current capacities at all levels and their preparedness for e-governance.</td>
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<tr>
<td>Future State Definition</td>
<td>Process reengineering and to –be process definition, Identity IT enablement opportunities and requirements, Define changes to the legal and regulatory environment, Develop People change and capacity building plan, Develop project awareness and communication requirements…</td>
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<tr>
<td>Implementation approach and sourcing</td>
<td>Define implementation approach and phasing plan (functional and geographic), Assess detailed funding requirements and business model, Prepare DPR, Develop vendor evaluation and selection criteria, Develop KPIs and performance levels for services and systems, Develop RFP, Bid evaluation and vendor selection.</td>
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<tr>
<td>Develop and implement IT system</td>
<td>Definition of detailed functional and technical requirements, System design and development, Software quality assurance, acceptance testing and auditing, Training and capacity building, Change management and project communications, Objectives and benefits evaluation and reinforcement, Sustained change, capacity building and communications..</td>
</tr>
<tr>
<td>Operate and sustain</td>
<td>System operations and maintenance, Software change management, Rollout services and systems (functionality and geography), Project documentation, Project go-live.</td>
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**Slide 3**
Understanding business model in simple terms…

A Business model for a project should address/answer the following

• How much does it cost to create and maintain the project?

• Who is funding for the Project?

• Who is developing or implementing the project?

• Who is paying for the project?

• What are payment terms?

• Roles and responsibilities of the parties concerned with the business model

• Duration of the contract…. Etc…
Understanding Project Financing Options

Project Finance Options:

- Public Finance
- Private Finance
- Project Finance
Public Finance

- Government sponsors the project through
  - Budgetary sources or
  - Loans
- Project is implemented through an execution contract with the private partner
- Execution contract refers to the contract with the private partner stating:
  - Scope of services
  - Commercials quoted during the bidding/vendor selection processes
  - Payment terms
  - Implementation/delivery schedule for the project
  - SLA’s
  - And other terms and conditions of the project
Public Finance (contd..)

- Where applicable, service charges are collected from the users by the government
  - Government is in the business of public service
  - Not in all e-Government projects, the service charges can be collected by the government
  - Government earns revenue from the service charges, where applicable

- This is a conventional process of project implementations by the government
- Payments are made to the private partner based on the quality of the services delivered in the project
Public Finance

Budgetary sources, Lenders/Funding agencies → Government

Government payments to Project → Private contractor

Execution contract and payments to vendor from government based on performance

Users/taxpayers → Service delivery

Service charges (if any) → Government

Repayment of loans (if any) → Budgetary sources, Lenders/Funding agencies
Private Finance

• Two important terms

  • Concession : The agreement between government and the private partner stipulating rights and responsibilities for the use of public assets.
  
  • Concessionaire : The private partner with whom the government enters into concession agreement.
  
• The project is financed by a private body through equity and debt
  
• The revenue is through the user charges and/ or annuity payments by the government
  
• Not suitable for capital Intensive projects as private organization do not like to strain its balance sheet through debt
Private Finance

Lenders → Private company

Government

Concession → Annuity Payments

Private company → Project

Investment

Users

Loan → Repayment

Fees → Services
Examples of Private Finance

- State Wide Area Network (SWAN) and State Data Center (SDC)
  - Capital and operational costs for DC or SWAN are invested by the private partner
  - No upfront investment from the government in SWAN or SDC creation
  - The payment to the private partner are made by the government post go-live of SDC or SWAN based on a quarterly or annual basis inline with the defined SLAs and the vendor performance
- e-Procurement (Andhra Pradesh), Bangalore One (Karnataka) or CSCs scheme
  - Capital and operational costs for systems/facilities creation are invested by the private partner
  - No upfront investment or no investment from the government in the project
  - Revenue to the private partner is accrued through service charges collected from the users and viability gap funding from the government…
Project Finance

• Project assets and its potential future earnings finance the project
• Generally a Special Purpose Vehicle is created which is legally independent
• Debt financing is the primary source of funding
• Risks are shared by participation of multiple complementing partners in the SPV
• The concession agreement is with the SPV or the Project company so formed
Project Finance

Lenders

Sponsor 1

Sponsor 2

Sponsor n

Project Company/SPV

Loan

Repayment

Concession Contract

Government

Users

Tariff

Services

Sponsor 1

Sponsor 2

Sponsor n

Government

Loan

Repayment

Concession Contract

Users

Tariff

Services

Sponsor 1

Sponsor 2

Sponsor n

Government

Loan

Repayment

Concession Contract

Users

Tariff

Services

Lenders

Sponsor 1

Sponsor 2

Sponsor n

Project Company/SPV

Loan

Repayment

Concession Contract

Government

Users

Tariff

Services

Lenders

Sponsor 1

Sponsor 2

Sponsor n

Project Company/SPV

Loan

Repayment

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Users

Tariff

Services

Lenders

Sponsor 1

Sponsor 2

Sponsor n

Project Company/SPV

Loan

Repayment

Concession Contract

Government

Users

Tariff

Services
Examples of Project Finance

• Large Infrastructure projects
  - Roads
  - Power Projects
  - Airports etc..
Project Finance in e-Governance

Project Finance in e governance is relevant for

- Turn key projects of high investment
- Projects with regular stream of revenue
- Projects which require participation of multiple partners with complementing capabilities.
Various Models for Private Sector Participation

- Conventional
- Outsource
- PPP
- Risk Transferred to the Private Sector
- Privatise
Various Models for Private Sector Participation

**Conventional**

- Government maintains complete control on the project creation, execution and assets
- Government funds the project investments for the capital and operational expenditure during the project tenure
- Government creates/develops the project
- Government Maintains the project including operations and maintenance of the project
- 100% of the project risk and returns are accrued to government only

**Outsource**

**PPP**

**Privatise**
Various Models for Private Sector Participation

**Conventional**
- Government maintains complete control on the project creation, execution and assets
- Government funds the project investments for the capital and operational expenditure during the project tenure
- Government leverages private sector strengths for creation of the project or maintenance of the project or both
- Risks are allocated to the government and private sector based on the responsibilities (e.g. government will have the risk of project demand, the private sector will carry the risk of performance and quality of the services delivered to the government)

**Outsource**

**PPP**

**Privatise**
Various Models for Private Sector Participation

- **Conventional**
  - The government does not need to own infrastructure to deliver services
  - The government retains political responsibility/accountability to deliver services for the community;
  - The government defines the timeframe in which the services must be delivered; and the quality and quantity of services needed;
  - The private sector delivers the services and finances or part finances the project;
  - Government provides the concessions for the private party, if needed
  - Private sector remunerated through services charges/transaction fees/gap funding..
  - Risks are allocated between the public and private sectors;
  - Various flavors of PPP exist with varying roles and responsibilities of public and private sectors

- **Outsource**

- **PPP**

- **Privatise**
Various Models for Private Sector Participation

- **Conventional**
  - The responsibility for delivery of services is completely transferred to the private sector
  - The ownership of the project or a business is completely transferred to the private sector
  - Government only regulates the functioning of the private sector

- **Outsource**

- **PPP**

- **Privatise**
End of Session