

**Government of India
Ministry of Finance
Department of Economic Affairs**

Public Private Partnership Appraisal Committee

25th meeting on July 9, 2009

Record Note of Discussion

The 25th meeting of the Public Private Partnership Appraisal Committee, chaired by Secretary, Economic Affairs was held on July 9, 2009. The list of participants is annexed.

2. The Chairman welcomed the participants and noted that sixteen proposals would be considered during the meeting, of which 15 proposals were from Ministry of Road Transport and Highways (MoRTH) for grant of final approval; and one proposal from Ministry of Micro, Small and Medium Enterprises (MoMSME) for approval of the Request for Qualification (RfQ) for setting up of Mini Tool Rooms in Tamil Nadu . It was decided to first consider the proposal from MoMSME.

Agenda Item 1: Proposal from Ministry of Micro, Small and Medium Enterprises- Approval of the Request for Qualification (RFQ) document for the Scheme 'Setting up of Mini Tool Rooms' under PPP Mode.

3. Additional Secretary, MoMSME informed that the Ministry had been successfully running ten government-funded tool rooms. Accordingly, with the approval of CCEA, it was decided to establish 15 new tool rooms through three models in the order of preference:

- a. Model I: Central PPP model: projects to be set up and operated by private partner. The financial assistance will be given to meet the viability gap on a case-to-case basis and it will be restricted to 40 per cent of the project cost, not exceeding Rs.9 crore. The remaining resources would be arranged by the Project Sponsor.
- b. Model II: State PPP Model: projects would be set up by State Governments in cooperation with NGOs who would run the project on mutually agreed terms.
- c. Model III: Projects to be set up and managed by the State Government or their agencies with financial assistance up to 90 per cent of the cost.

4. Additional Secretary, MoMSME explained that it was further decided that the proposals were first to be invited in the PPP mode through Model I; in case the project was unviable on the said framework, the other two approaches were to be

considered. It was explained that MoMSME had accordingly drawn up the 'Scheme for Setting up of Mini Tool Rooms under PPP Model. To procure the private sector entities for the Tool Rooms, it was now proposed to issue the Request for Proposal (RfQ).

5. It was noted that the project size was Rs 25 crore and did not warrant clearance by the PPPAC. However, since deviations were proposed from the model RfQ document, approval of PPPAC was being sought on the draft RFQ document, in accordance with the guidelines on the subject, issued by Department of Expenditure. Planning Commission had forwarded comments on the project.

6. Representative of Planning Commission noted that since the complete project proposal had not been provided, it was difficult to comment on the RfQ document. It was suggested that in case the Ministry required assistance in the development of project structure and project documents, the Ministry could consider availing support from Department of Economic Affairs or Planning Commission.

7. Representative of DEA noted that the PPP projects which were proposed to the PPPAC were typically projects with the following features:

- i. Consisting of an arrangement, between a government or statutory entity or government owned entity on one side and a private sector entity on the other,
- ii. For the provision of public infrastructure assets and/or services for public benefit,
- iii. Through investments being made by and/or management undertaken by the private sector entity for a specified time period,
- iv. Where there is a substantial risk sharing between the government and the private sector with pre-determined and measurable performance standards, and
- v. The private sector receives performance linked payments or rewards.

In the instant project, though private sector engagement was being sought, and a capital grant was envisaged for the project, there did not appear to be risk sharing framework between the public and private entity; further, contingent liabilities are not likely to devolve on the government. Representative of Department of Expenditure concurred with the view.

8. The Chairman noted that the project did not precisely belong to the genre of PPP projects being considered by PPPAC and advised MoMSME to proceed to bid out the project in accordance with the Scheme and the procedure approved by CCEA, after getting the contract documents legally vetted.

(Action: M/o MSME)

Agenda Item II: Proposals from Ministry of Road Transport and Highways for grant of Final Approval on BoT (Toll) basis:

- i. 6 laning of Pune-Satara section of NH 4 from km 725 to km 865.35 in the State of Maharashtra under NHDP Phase V on BOT (Toll) basis on DBFO pattern.**
- ii. 6 laning of Samakhiali-Gandhidham section of NH 8A from km 306 to km 362.16 in the State of Gujarat under NHDP Phase V on BOT (Toll) basis on DBFO pattern**
- iii. 6 laning of Udaipur-Ahmedabad section of NH 8 from km 269 to km 509 in the State of Rajasthan & Gujarat under NHDP Phase V on BOT (Toll) basis on DBFO pattern.**
- iv. 4/6 laning of Maharashtra/Goa Border Km 475.040 to Panaji-Goa/Karnataka Border km 611 of section NH 17 in the state of Goa to be executed as BOT (Toll) on DBFO pattern under NHDP Phase III**
- v. 4/6 laning of Gandhidham-Mundra Port section of NH8A in the State of Gujarat under NHDP Phase III on DBFOT pattern**
- vi. 4 laning of Ahmedabad to Godhra section of NH 59 in the State of Gujarat under NHDP Phase III on DBFOT pattern**
- vii. 4 laning of Godhara to Gujarat/MP border section of NH 59 in the State of Gujarat under NHDP Phase III on DBFOT pattern**
- viii. 4 laning of Indore-Jhabua-Gujarat/MP border section of NH 59 in the state of Madhya Pradesh on BOT (Toll) basis under NHDP III**
- ix. 4 laning of Rohtak to Bawal Section of NH 71 in the state of Haryana on DBFOT basis under NHDP III**
- x. 4 laning of Parwanoo-Solan section of NH 22 in the State of Himachal Pradesh under NHDP Phase III on BOT (Toll) basis on DBFO pattern**
- xi. 4 laning of Barasat-Krishanagar section of NH 34 in the State of West Bengal on DBFOT (Toll) basis under NHDP III**
- xii. 4 laning of Bareilly-Sitapur section of NH 24 in the State of Uttar Pradesh on BOT basis under NHDP III**
- xiii. 4 laning of Krishanagar-Baharampur section of NH 34 in the State of West Bengal on DBFOT (Toll) basis under NHDP III**
- xiv. 4 laning of Hyderabad-Yadgiri section of NH 202 in the State of Andhra Pradesh under NHDP Phase III on BOT basis**

9. It was noted that the Planning Commission had not forwarded the legal comments on the project documents of the 15 proposals. Representative of Planning Commission informed that the representatives of Planning Commission and NHAI had met for a pre-appraisal meeting on July 8, 2009. The conclusions arrived at during the meeting and subsequently endorsed during the meeting held on July 9, 2009 with Secretary MoRTH in chair were as under:

9.1 Draft Concession Agreement: It was agreed that revised DCAs of the 14 BoT(Toll) project stretches would be revised and submitted without any deviations from the MCA, except Article 25 (Grant). The revised documents would be examined by the Legal Counsels of the Planning Commission and comments would be sent within a week to DEA/MoRTH.

9.2 Revision of Structures on the project stretches: In order to economise on available resources and for making projects viable, it was agreed by DoRTH that the following changes would be made in the project structures:

9.2.1 Projects with PCUs below 12,500: The projects would initially be developed as two laned with paved shoulders and 4-laning would be done as a second phase after 7-10 years. However, if 4-laning is considered necessary for border-line cases, then the highways would be constructed with no grade separators until the traffic reaches 29,000 PCUs. Vehicle overpass/ underpasses may be constructed only where traffic on the intersection exceeds 10,000 PCUs per hour and the intersecting road has a traffic exceeding 20 PCUs per hour.

9.2.2 Projects with PCUs between 12,500 and 25,000: The following modifications would be made in all project proposals:

- (a) Service roads on 4-lane projects should be restricted to urban built-up areas and constructed in the second phase only when the traffic crosses 29,000 PCUs.
- (b) All structures such as bridges, flyovers and ROBs would have four lanes, i.e. a carriageway of upto 18 m with 1.5 m for pedestrian pavement. Where a two-lane bridge already exists, the new structure will be 9 m wide with 1.5 m footpath.
- (c) Underpasses (vehicular, pedestrian and cattle) should be reviewed and minimised. New overpasses can be built wherever necessary from safety point of view, but only after the traffic crosses 29,000 PCUs.
- (d) Vehicle overpass/ underpasses may be constructed only where traffic on the intersection exceeds 10,000 PCUs per hour and the intersecting road has a traffic exceeding 20 PCUs per hour.

9.2.3 Projects for six-laning: The following modifications would be made in all project proposals:

- (a) Service roads may be restricted to urban and built-up areas for a traffic level of up to 60,000 PCUs.
- (b) Continuous service roads may be provided only when traffic crosses 60,000 PCUs.
- (c) The number of underpasses should be reviewed and minimised. New overpasses may be provided when traffic crosses 60,000 PCUs.

- (d) Vehicle underpasses/ overpasses may be constructed only where traffic exceeds 10,000 PCUs per hour and the intersecting road has a traffic exceeding 20 PCUs per hour.

9.2.4 *Eccentric roads:* The proposals involve construction of centric roads which leads to higher costs as the existing crust is wasted in the divider. It was suggested that eccentric roads may be constructed as is done by most State Governments and NHAI. Efforts may be made to retain the old pavement with profile correction and strengthening while adopting eccentric construction as the preferred mode. In urban areas, however, centric construction may be adopted.

9.2.5 *Intersections:* All highways may be constructed at grade and intersecting state roads may be constructed as overpass if traffic on such road exceeds 5,000 PCUs. Exceptions may have to be made in urban areas.

9.2.6 *RfP:* All new RFPs should be issued as per the new Model RFP being issued by the Department of Expenditure (DoE). The new RFP should not contravene the provisions of the RFQ issued earlier.

9.3 Revision of TPC: It was agreed that costs would be revised suitably and conveyed to DEA and Planning Commission for comments, if any. In particular, NHAI would ensure that bids are not invited if lack of response is anticipated on account of high costs and low viability.

9.4 Applicability of Manual: It was agreed that the approved IRC Manual of Standards & Specifications for 2-laning and 4-laning would be made applicable for all the projects.

10. Secretary, RTH confirmed that the above decision was acceptable to the Ministry and that NHAI would suitably modify the project documents. Joint Secretary, DEA noted that efforts to curtail the costs by eliminating/modifying the project structures should not compromise the safety of the project highways and suggested that this may be confirmed by MoRTH in writing.

11. The Chairman noted that MoRTH may ensure that the safety considerations are not compromised. Further, the generic changes in the project structures for the instant projects may be formalised through incorporation in the Manual of Specifications and Standards.

(Action: MoRTH)

12. The representative of Planning Commission further stated that Planning Commission was not in favour of increase in grant (up to 40 per cent of Total Project Cost) during the construction period. The present provision in the MCA states that

up to 20 per cent of the Total Project Cost (TPC) may be given as equity support while additional grant upto another 20 per cent can be given as O&M grant during one/ two years after completion of construction. If grant equivalent to 40 per cent of TPC is provided by the Government during construction period and a further amount equivalent to up to 20 per cent of Total Project Cost is provided by IIFCL to the project as loan/ quasi-equity, the stake of the Concessionaire would be significantly reduced. The original provision of grant up to 20 per cent of TPC during construction phase and the balance to be released soon after COD should continue to be followed. If the deviation is to be made, the amount in excess of said 20 per cent should be given against an irrevocable bank guarantee for a period of at least three years. CCEA approval may also be obtained for making this significant departure from the duly approved concession framework.

13. The representative of NHAI pointed out that adequate safeguards were built into the process of release of Viability Gap Funding for a project. The grant is released subsequent to the Concessionaire expending the equity on the project and after examining the physical progress on the project stretch. Further, the IIFCL provides loan to a project highway after the credit worthiness of the concessionaire has been determined by the Lead Financial Institutions for the project. Moreover, the Cabinet had approved that VGF up to 40 per cent of the TPC may be allowed for a project.

14. Secretary, RTH stated that seeking a guarantee could prove to be counter-productive and impact the bid response to the projects. Furthermore, the CoS had approved the dispensation that VGF up to 40 per cent of TPC may be allowed as equity support during construction period. The dispensation, allowed till December 2009, was being availed for the instant projects and may be cleared. The representative of Department of Expenditure supported the proposed course of action. It was agreed that the proposed departure from the MCA, allowing equity support up to 40 per cent of the TPC during the construction period may be allowed for the 14 projects.

(Action: MoRTH)

15. Joint Secretary DEA noted that DEA had made observations regarding the projects in their appraisal notes. MoRTH may examine the same and respond to the same. This was agreed to.

16. It was noted that DEA, in their appraisal had pointed out that the project stretch from Godhra-MP Border section of NH- 59 did not have traffic which was assessed in the toll plaza locations. It was decided that NHAI would undertake fresh traffic survey at toll plaza locations and if required, re-structure the project as

two laned with paved shoulders. The final project documents would be sent to PPPAC Secretariat for record.

17. It was noted that the project stretch of Krishnagar- Baharampur was not justified as a four-lane highway. Chairman, NHAI explained that the project was earlier structured as two laned with paved shoulders and bids invited; however, the State Government did not support tolling on a two lane project highway and the project was not awarded. Accordingly, it was proposed to bid the project for development as a four-lane highway. This was accepted.

18. The fourteen BOT (Toll) project proposals were granted final approval subject to the following conditions:

- i. MoRTH would revise the project documents based on the discussions with Planning Commission and send the revised documents to the PPPAC Secretariat for record.
- ii. Planning Commission would send the appraisal notes and comments of their Legal Counsel for the project proposals. MoRTH would send the written response to the Appraisal Notes of Planning Commission and DEA on the project proposals.
- iii. For the Phase V projects, the Draft Concession Agreements (DCAs) may adopt the same formulation as was approved by the PPPAC in its nineteenth meeting held on November 21, 2008, viz., the Financial Closure may be made a condition precedent for Appointed Date. The COD may be the date of Financial Closure. The performance security may be enhanced to 12 months of toll revenues or 5% of TPC, whichever is higher, which may be released upon 40 percent of the TPC being expended. Consequential modifications may also be carried out in respect of other clauses of the project DCAs. Representative of Planning Commission stated that Planning Commission did not agree with these conditions and requested that their dissent may be recorded.

(Action: MoRTH)

Agenda Item III: Proposals from Ministry of Road Transport and Highways for grant of Final Approval on BOT (Annuity) basis: 4 laning of Haridwar-Dehradun Section of NH 58 & 72 in the state of Uttarakhand-BOT (Annuity) basis

19. It was noted that Muzaffarnagar to Haridwar section was earlier bid out in 2006. Single bid response received, thus, was rejected. The Proposal was again put up based on new toll policy in 2008 for bidding; however, yet again it failed to receive any response from the bidders. Subsequently, after two failed attempts to evince private sector responses, the Project Highway was considered for bifurcation,

it was decided that the section from Muzaffarnagar to Dehradun for 4 laning would be taken up on BOT (Toll) basis and the section from Haridwar to Dehradun, the instant project shall be taken up on BOT (Annuity) basis.

20. The representative of Planning Commission indicated that they did not support the bidding of the project on BoT (Annuity) basis and suggested that the project stretch could be restructured for two laning with paved shoulders and bid on BoT (Toll) basis. Further, there was limited scope for awarding projects on Annuity basis within the available resources. The representative of DoE observed that bidding the project on BoT (Annuity) basis without testing the stretch on BoT (Toll) basis was not in accordance with the approved mode of implementation of National Highways. Chairman, NHAI explained the stretch from Muzaffarnagar to Haridwar was not found to be viable on BoT (Toll) basis on account of the section from Haridwar to Dehradun. Hence, bidding the section on BoT (Toll) was not likely to elicit a response. Furthermore, the entire stretch from Muzaffarnagar to Haridwar had already satisfied the condition of the approved mode of implementation of National Highways. However, bidding the entire stretch on BoT (Annuity) basis was likely to result in higher annuity payouts by the Government, in comparison to the shorter unviable stretch from Haridwar to Dehradun. Hence, the shorter, unviable project stretch may be considered for approval on BoT (Annuity) basis.

21. The project was granted final approval subject to availability of resources for annuity payments.

(Action: MoRTH)

22. The meeting ended with a vote of thanks to the chair.

**Ministry of Finance
Department of Economic Affairs**

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**Public Private Partnership Appraisal Committee (PPPAC)
25th Meeting on July 9, 2009**

List of Participants

- I. Department of Economic Affairs**
- i. Shri Ashok Chawla, Finance Secretary (In Chair)
 - ii. Shri Govind Mohan, Joint Secretary
 - iii. Smt. Aparna Bhatia, Joint Director
- II. Department of Expenditure**
- iv. Ms. Meena Agarwal, Joint Secretary
- III. Planning Commission**
- v. Shri G. Haldea, Adviser to Dy. Chairman
 - vi. Shri Ravi Mittal, Adviser
 - vii. Shri Amitabha Ray, Dy. Adviser
- IV. Ministry of Law**
- viii. Ms. Poonam Suri
- V. Department of Road Transport & Highways**
- ix. Shri Brahm Dutt, Secretary
 - x. Shri Nirmal Jit Singh, Addl. Director General
 - xi. Shri P.K. Tripathi, Joint Secretary
- VI. National Highways Authority of India**
- xii. Shri Brijeshwar Singh, Chairman
 - xiii. Shri S.K. Puri, Member (Projects)
 - xiv. Shri Subh`sh Patel
 - xv. Shri Satish Kumar, CGM
 - xvi. Shri R.K. Singh, CGM (T)
 - xvii. Shri M.P. Sharma, CGM (T)
- VII. Ministry of Micro, Small & Medium Enterprises**
- xviii. Shri Madhav Lal, AS & DC
 - xix. Shri Abhay Bakre, JDC
 - xx. Shri R.K. Rai, Director