

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

Public Private Partnership Appraisal Committee

36th meeting on May 28, 2010

Record Note of Discussion

The 36th meeting of the Public Private Partnership Appraisal Committee, chaired by the Finance Secretary, was held on May 28, 2010. The list of participants is annexed.

2. The Chairman welcomed the participants and noted that eleven projects, viz., five from Ministry of Youth Affairs and Sports (MoYA&S) and six from Ministry of Road Transport and Highways (MoRTH) would be considered during the meeting.

Agenda Item I-V: Proposals from MoYA&S for in-principle approval:

- i. Operations, Management and Maintenance of Shyama Prasad Mukherjee Swimming Pool Complex on PPP Basis (OMT approach)**
- ii. Operations, Management and Maintenance of Dr. Karni Singh Shooting Ranges (New Delhi) on PPP Basis**
- iii. Operations, Management and Maintenance of Jawaharlal Nehru Stadium (New Delhi) on PPP Basis**
- iv. Operations, Management and Maintenance of Indira Gandhi Sports Complex (New Delhi) on PPP Basis**
- v. Operations, Management and Maintenance of Major Dhyan Chand National Stadium (New Delhi) on PPP Basis**

3. Secretary, Sports stated that the Sports Authority of India (SAI) had been established after the Asian Games in 1982 in India and entrusted with the responsibility of management of the Sports stadia on behalf of the Government of India. The preparation of the Commonwealth Games scheduled to be held in New Delhi in October, 2010 has catalysed considerable investment in the Sports stadia and their upgradation to international standards. To ensure that the infrastructure thus created is maintained, the MoYA&S is developing a legacy plan for the stadia. Furthermore, the Ministry is also developing a Sports Plan which would establish

the process for maintenance of sports infrastructure across the country. The Ministry envisages developing a framework of maintenance of the sports stadia in the country through the PPP framework. International practice in this regard had also been observed, specifically the experience of United Kingdoms and Australia. While developing the framework for maintenance and upkeep of the stadia with private sector participation, the Ministry was conscious of its responsibility in ensuring that the stadia in Delhi, which are located in prime properties in the region and in close proximity to some heritage sites, remain of international standards and blend well with the surrounding architecture. The Ministry was seeking participation from private sector entities which would maintain the stadia with due consideration of these aspects. Hence, it was envisaged that only large and financially well established entities would be eligible to engage in the bid process for operations, management and maintenance of these stadia.

4. The Chairman of the PPPAC complimented the Ministry for their initiative and noted that based on the experiences of the first five stadia in Delhi, the Ministry could consider developing/adopting a similar framework for other stadia in the country, which often lapse into a state of dis-repair due to financial/ managerial neglect. Member Secretary, Planning Commission endorsed the observations. Secretary, Sports informed that the Ministry and SAI would consider suitable replication of the experience in the other 80 stadia in the country.

(Action: MoYA&S/SAI)

5. It was noted that Department of Economic Affairs had circulated the appraisal note in respect of the proposals. However, the appraisal note of Planning Commission had not been received. Adviser, Planning Commission informed that they had held a meeting with the representatives of the SAI and advised that revised RfQs may be provided based on the discussions. Since the revised RfQs had not been provided, the Planning Commission had not sent the appraisal note on the proposals. Joint Secretary, DEA informed that as per the Guidelines for Formulation, Appraisal and Approval of Central sector PPP projects, approval of a proposal is based on the response of the project sponsor on the appraisal notes of the appraising agencies. The project documents are revised by the Sponsoring Authority in accordance with the observations in the appraisal notes. However, the instant proposals had witnessed procedural lacunae, with Planning Commission requesting for revised documents based on suggestions made during a bilateral meeting. No appraisal note on the project proposals had been sent. It was suggested that since the project is of national significance and requires timely clearance and completion, the proposal may be considered for grant of 'in principle' approval based on the Appraisal Note of DEA and observations which the Planning Commission would

make during the meeting. This was agreed to. Member Secretary, Planning Commission observed that delays in appraisal at the level of Planning Commission may be brought to her personal notice in future.

6. Joint Secretary, SAI made a presentation on the proposals. It was indicated that the SAI has undertaken the development of five sports complexes in Delhi at an estimated cost of Rs. 2,475 crore. After the Commonwealth Games, the combined annual O&M bill for the stadia will exceed Rs. 75 crore, as against Pre-games funding of O&M of the Stadia by the Government limited to a total of Rs 10 crore. Accordingly, the legacy planning for the Delhi stadia, called the "Management & Operations Plan" (MOPP) envisages private sector participation for ensuring world class maintenance of the stadia in a self sustaining manner through creative use of available infrastructure to supplement revenues from sports related revenue.

7. Joint Secretary, SAI informed that all observations of DEA in respect of the project RfQs were being accepted and the provisions of RfQs were being redrafted in accordance with the Model RfQ developed by Planning Commission and notified by Ministry of Finance. There were three aspects where full replication of confirmation with the prescribed clauses was not being attempted:

7.1 Clause 1.2.5 and 1.2.8: DEA had pointed out that the provisions of the RfQ were silent on an event where the concession fee quoted by the highest bidder is negative and sought confirmation that non-inclusion of grant was a conscious decision. Accordingly, it was expressly clarified that premium (in the form of an Annual Concession Fee) has been kept as the bid variable. Since a negative quote for the premium (i.e., Grant) is not acceptable to the Authority, provisioning of the same had not been included.

7.2 Clause 2.2.2 B: The financial capacity and the criteria for benchmarking net worth was kept substantially higher than the level prescribed in the Model RfQ. This was a conscious decision based on the value of the assets of the stadia. Planning Commission, DEA and DoE expressed concern that very high thresholds would be restrictive of competition. The representative of SAI informed that an assessment had been made about the ability of the private sector companies eligible to meet the aforesaid thresholds. The empirical evidence suggested that adequate number of firms would be able to meet the eligibility criteria; hence the criteria would not be restrictive of competition.

7.3 Clause 2.2.3: O&M experience of Category 2 project was also considered in addition to Category 1 O&M experience (model RFQ only considers Category 1

experience). This has been done to ensure adequate competition, as only a few entities will qualify under the model RFQ provisions.

8. Joint Secretary, DoE stated that they were broadly in agreement with the proposed revisions and expressed reservations about the high financial thresholds in the eligibility criteria. SAI was also requested to share the assumptions made to determine the NPV of revenue streams.

9. The representative of Department of Legal Affairs indicated that they had no comments to offer from the legal perspective.

10. Adviser to Deputy Chairman Planning Commission complimented the MoYA&S on their initiative. He emphasised the need to ensure proper bid documentation to meet the principles of transparency and adequate competition during the bid process. He expressed reservations at the high net worth criteria proposed for eligibility to bid and observed that it could restrict to adequate competition as all the entities included in the empirical assessment of eligible private sector entities in the country may not be interested in the operations and maintenance of sports stadia in Delhi. It was also suggested that further thought and discussion was necessary to identify activities which could generate revenues while safeguarding the stadia from misuse. Joint Secretary, SAI informed that the admissible and negative lists of activities had been drawn up and would be discussed at the 'final approval' stage.

11. Member Secretary, Planning Commission suggested that the net worth criteria, as proposed by MoYA&S may be accepted since it was a conscious decision of the Ministry and the empirical evidence collected by the Ministry appeared to suggest that the clause would not be restrictive of competition.

12. The PPPAC granted 'in principle' approval to the project subject to the revised documents being sent to DEA for sharing with members of PPPAC.

(Action: MoYA&S and SAI)

B. Proposals from MoRTH for final approval

13. Certain over-arching aspects and concerns with respect to the NHDP were discussed.

High project costs and Sustainability of the NHDP

14. Member Secretary, Planning Commission observed that the costs of the six projects under consideration had wide variations. She emphasised the need for NHAI to undertake an examination of the sustainability of the project cost before posing the proposal to PPPAC. The experience from the projects coming to the PPPAC is that the threshold level of project costs established subsequent to the BKC Committee recommendations are being breached in majority of the cases due to various reasons. It was suggested that MoRTH/NHAI should consider developing cost norms/benchmarks after examining different geographical areas. The region specific norms should be adhered to while posing proposals to the NHAI Board or the PPPAC.

(Action: NHAI/MoRTH)

15. Joint Secretary, DoE expressed concern that the ceilings on NHAI had been established based on kilometres of National Highways to be developed. However, there was no threshold established based on the costs of the projects and its impact on the overall finances of the NHAI. This aspect required immediate and careful consideration.

16. Member (Finance) NHAI informed that these aspects are under the purview of a Committee established in the Planning Commission. However, due to various reasons, the meetings of the Committee have been getting postponed and the Committee has not arrived at any conclusion/recommendation.

17. Joint Secretary, DEA informed that the Empowered Group of Ministers (EGoM) on 'Revised Strategy for implementation of NHDP- framework and financing' had deliberated on the Financing Plan of NHDP. The EGoM had approved the Work Plan for the years 2009-10 and 2010-11 and agreed that necessary financial support may be provided to NHAI for undertaking the work plan implementation with the stipulation that total length of National Highway to be developed would be broadly 60 per cent taken up on BoT (Toll) basis, 25 per cent on BoT (Annuity) basis and the remaining 15 per cent on EPC. Since the work plan has already been approved, the approval of the projects in the work plan 2009-10 and

2010-11 should not be stalled on account of finalisation of the overall Financing Plan for NHAI as a whole.

18. Adviser to Deputy Chairman, Planning Commission observed that approval of the physical programme without financial approval suggested that separate approval of the financing aspects should also be obtained. Since the Government was yet to approve the proposed borrowings by NHAI to undertake the NHDP (as indicated in the Financing Plan), approval of projects on BoT (Annuity) basis should be with caution and after due consideration of the resources currently available with the NHAI through the toll revenues and cess collection.

19. Chairman of the PPPAC concurred with the view that expeditious approval of the Financing Plan is necessary for a view on the overall sustainability of the NHDP programme. However, the projects approved under the Work Plan should not be held up on account of the delay in the decision on the Financing Plan. He requested Planning Commission to expeditiously conclude the deliberations on the Financing Plan. The Chairman suggested that the projects under consideration could be considered on merit.

Bid Process for National Highways projects

20. Chairman, NHAI informed that the private sector has evinced considerable interest in the highways projects; some RfQs have had over 50 responses/applicants. The number of projects with lesser interest from the private sector (i.e. 1 or 2 responses) were relatively few. As more and more projects are brought to the market, the NHAI was also expected to play a more vigilant role to ensure that projects were awarded to private entities, which were financially capable of undertaking the projects. Therefore, NHAI was imposing restrictions to make the eligibility criteria more stringent, i.e. entities with financial closure pending for three or more projects were not considered eligible for other NH projects. Joint Secretary, DoE indicated that NHAI/MoRTH had sought the approval of the Finance Minister to relax the provisions of the Model RfQ in respect of the NH projects by deletion of the provision on limiting the shortlisted bidders to five or seven. The basis of the proposal and its approval was that limiting the shortlist could result in cartelisation and that larger competition at the RfP stage would result in more competitive bids to the advantage of NHAI. However, NHAI was now trying to limit the competition through other provisions which was contrary to their earlier view. It was decided that NHAI would re-examine the bid process (and the procurement documents) in view of the observations of the members of the PPPAC.

(Action: NHAI)

Agenda Item VI: Proposal from MoRTH for final approval: Four laning of Nagpur Wainganga Bridge section of NH 6 in the State of Maharashtra on BOT (Toll) under NHDP Phase III

21. The representative of NHAI/MoRTH presented the proposal. It was noted that the appraising departments have expressed concern on the Total Project Cost. NHAI had thereafter restructured the project and the total project cost was Rs. 568.96 crore i.e. Rs.10.32 crore per km. The cost was still higher than the thresholds adopted by the BK Chaturvedi (BKC) Committee. It was noted that the definition of 'Debt Due' had been replaced with 'debt of the Concessionaire' in clause 5.1.3. The representative of NHAI confirmed that the correction had been effected and the provisions of the MCA restored.

22. The representative of Planning Commission observed that the project entailed redevelopment of a stretch of 26 km. In case the same was not included, the project cost would come within the prescribed level. Chairman, NHAI informed that the stretch has very low embankment height and transverse area with black soil. Hence the highway could be developed there by replacing the existing sub-grade soil. Chairman of the PPPAC suggested that NHAI should estimate the TPC without taking into account the cost of the 26 km stretch for a better understanding of the project cost and its departure from the established thresholds.

23. The representative of DEA drew attention to the Wainganga bridge adjoining the project stretch. The 3.1 km stretch was currently a standalone concession which would terminate in 2017. Hence, the operation and maintenance of the bridge should be part of the said concession. The representatives of Planning Commission and DEA pointed out that the preparation of the schedule was not being paid adequate attention. The changes may be made in the project documents based on the observations of the Appraising Agencies.

24. The representative of DoE concurred with the view that the cost of the project required review and further curtailment. It was also noted that the land acquisition for the project was expected to be completed by December, 2010. Concerns were expressed regarding the changes which had been effected in the RfP and RfQ documents which were expected to curtail competition.

25. It was decided to return the project to NHAI. NHAI was requested to re-review the project scope of work and the total project cost, the structure of the project and send the revised project document to the members of PPPAC.

(Action: NHAI/MoRTH)

Agenda Item VII: Proposal from MoRTH for final approval: Two laning with paved shoulders of Madurai Ramanathpuram section of NH 49 in the State of Tamil Nadu on BoT(Annuity)

26. The representative of NHAI presented the proposal. It was indicated that adjoining stretch from Trichy to Karaikudi has been awarded; the stretch from Karaikudi to Ramanathpuram has been cleared by the SFC and the two-member Committee consisting of Secretary, RTH and Finance Secretary subject to the cost remaining within the approved threshold level of Rs.3.5 crore per km. The instant project consists of three sections and connects the two temple towns of Madurai and Rameshwaram. The stretch from Madurai to Parukodi had sufficient traffic flow. However, the remaining two stretches did not have adequate traffic. The project cost at Rs.2.16 crore per km was within the threshold level established by the BKC Committee assumptions.

27. Adviser, Planning Commission invited attention to the decision in the 35th meeting of the PPPAC that the Committee headed by Chief Economic Adviser would recommend reasonable returns on equity and debt for annuity projects. It was suggested that the project may be granted approval subject to the determination of the annuity threshold based on the decision of the PPPAC regarding reasonable returns on debt and equity for BoT (Annuity) projects.

28. Chairman, NHAI indicated that the project could be restructured and unbundled to develop a project from Madurai to Ramanathpuram (approximately 70 km stretch) as a BoT (Toll) project while the remaining could be structured as a BoT (Annuity) project. Adviser to Deputy Chairman, Planning Commission observed that projects, with a project cost of less than Rs 1 crore per km, are not tolled by the NHAI. Hence, the balance stretch of the unbundled project may be developed as an EPC project. Joint Secretary, DoE concurred with the view. Joint Secretary, DEA emphasised that the decision to undertake a project on BoT (Annuity) basis was not driven by revenue considerations but on the principles of harnessing private sector efficiencies in project construction and operations and maintenance. Hence, if it was possible to undertake the project on BoT (Annuity) basis, it may be supported since

it would ensure operations and maintenance of the project over its life cycle. Chairman, NHAI endorsed the view and informed that the stretch required considerable maintenance; hence it may be useful to consider a BoT (Annuity) framework for the stretch.

29. Chairman, PPPAC requested NHAI to re-examine the project based on the views of the members. Accordingly, the project was returned to NHAI/ MoRTH to develop as BoT (Toll) project from Madurai to Ramanathpuram and the balance stretch as a BoT (Annuity) project.

(Action: NHAI/MoRTH)

Agenda Item VIII: Proposal from MoRTH for final approval: Four laning of Ranchi Jamshepur section of NH 33 in the State of Bihar on BoT (Annuity) under NHDP Phase III

30. The PPPAC noted that the project, which had earlier been approved on BoT (Toll) basis had not received a response on bidding. Accordingly, it was proposed to develop the project on BoT (Annuity) basis as a four lane highway. The project had a cost of Rs.9.05 crore per km and was within the levels assumed by BKC Committee.

31. Adviser, Planning Commission indicated that the project stretch includes a bypass of 25.5 km; in case that is not considered the cost would be lower. Further, Planning Commission had expressed reservations in their appraisal note in respect of the project DCA.

31.1 The DCA provided for bonus of early completion through early onset of the annuity payments and additional instalment of annuity (or a part thereof) since the concession period remains unchanged. Such dual advantage may be re-examined; a fixed number of annuity instalments should be provided during the concession period. Early completion of the construction implied early commencement of revenues which should be adequate incentive for early completion; hence, an additional monetary benefit was not required. It was indicated that Planning Commission had made other observations on the project DCA in respect of the annuity payments being indexed to inflation, assured lane availability, etc., which may be considered. Chairman, NHAI informed that no additional bonus was being provided to the Concessionaire; early completion resulted in early onset of the annuity payments as well as early toll collection for NHAI; the model was akin to the

BoT (Toll) model where early completion resulted in early onset of toll collection by the Concessionaire. Hence, the provision may not be changed. Joint Secretary, DEA informed that these observations related to the draft MCA on BoT (Annuity) prepared by MoRTH. It also incorporated the comments of DEA on the draft document, which had been sent with the approval of the then Finance Minister and Prime Minister of India. However, Planning Commission had not sent their comments on MCA; the same may be sent expeditiously for approval of the draft MCA document. With respect to the project under consideration, since the project DCA was based on the same formulation of MCA which had been used for other BoT (Annuity) projects approved by PPPAC, it may be accepted.

31.2 The Schedule B of the project DCA provided the alignment plan as a soft copy. A paper copy of the same may be provided to all the bidders. The representative of NHAI informed that a paper copy would be provided to all the bidders.

32. Adviser to Deputy Chairman, Planning Commission observed that developing an annuity project as a four lane highway would result in huge drain on the exchequer; the project may be developed as two laned with paved shoulders.

33. Joint Secretary, DEA indicated that the IMG chaired by Secretary, RTH to consider and approve the mode of implementation of National Highways, in its meeting held on March 5, 2010, had approved the mode of implementation as a four laned BoT (Annuity) project. Further, the traffic on this stretch justified four laning and the project cost was within the threshold recommended by BKC Committee. Hence, the project could be considered for clearance.

34. The PPPAC granted final approval to the project.

(Action: NHAI/MoRTH)

Agenda Item IX: Proposal from MoRTH for final approval: Four laning of Jabalpur Bhopal section of NH 12 in the State of Madhya Pradesh on BoT(Annuity) under NHDP Phase III

35. Joint Secretary, DEA informed that the IMG, chaired by Secretary, RTH on mode of implementation of National Highways projects had initially considered the project as three separate stretches. The initial stretch of 30 km in the Package I from

Bhopal to Obaidullahganj had traffic exceeding 20,000 PCUs; the remaining stretches of the three Packages had lesser traffic. Accordingly, it was decided that the initial stretch of 30 km may be developed as BoT (Toll) project and the remaining as two laned with paved shoulders project on BoT (Annuity) basis. However, the three packages were clubbed together by NHAI/MoRTH and placed for consideration by the EGoM for implementation of National Highways. The EGoM approved the project for four laning as a single stretch. Accordingly, the project had been posed for approval of the PPPAC. There were, however, certain significant departures in the proposal with respect to the approvals granted by the IMG and the EGoM. While the EGoM had approved the combined stretch for four laning, the instant proposal envisaged four-laning with paved shoulders. Further, while the cost proposed to the IMG had been Rs 1833 crore (Rs 6.04 crore per km), the instant proposal had TPC of Rs 2793.28 crore (Rs 9.63 crore per km).

36. Adviser, Planning Commission pointed out that NHAI has also posed a proposal from Jabalpur to Rajmarg for clearance by the SFC; the said stretch was also a component of the instant proposal. Representative of NHAI said that the proposal posed for clearance by the SFC may be treated as withdrawn.

37. The PPPAC noted that Planning Commission and DEA, in their appraisal, have drawn attention to the poor drafting of the schedules of the project DCA- the schedules of project DCAs of three individual stretches had been added as the Schedules, without any attempt at consolidation.

38. The PPPAC returned the project to MoRTH/ NHAI with a request to bring the increase in cost of the project (of around Rs 1000 crore) to the attention of the EGoM. NHAI was advised to re-draft the Schedules of the project DCA and submit a fresh proposal after obtaining views of the EGoM on the scope of work and the project cost.

(Action: NHAI/MoRTH)

Agenda Item X: Proposal from MoRTH for final approval: Four laning of Parwanoo-Solan section of NH 22 from km 67 to km 106 in the State of HP on BOT (Annuity) on BoT pattern under NHDP Phase III (Deferred in 35th PPPAC meeting).

39. The PPPAC noted that the appraisal note of Planning Commission in respect of the project had not been received and deferred the agenda item.

(Action: Planning Commission)

Agenda Item XI: Proposal from MoRTH for final approval: Two laning of Thiruvananthapuram to Kerala/TN border section of NH 47 from km 0 to km 43 in the State of Kerala on BoT (Annuity) basis under NHDP III (Deferred in 35th PPPAC meeting).

40. Chairman, NHAI informed that NHAI was withdrawing the proposal. Accordingly, the Agenda Item was dropped from consideration.

41. 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)
36th Meeting on May 28, 2010**

List of Participants

- I. Department of Economic Affairs**
- i. Shri Ashok Chawla, Finance Secretary (In Chair)
 - ii. Smt L.M. Vas, Additional Secretary
 - iii. Shri Govind Mohan, Joint Secretary
 - iv. Smt. Aparna Bhatia, Director
- II. Department of Expenditure**
- v. Smt. Meena Agarwal, Joint Secretary
 - vi. Smt. Parama Sen, Director (PF II)
- III. Planning Commission**
- vii. Smt. Sudha Pillai, Member Secretary
 - viii. Shri G. Haldea, Adviser to Deputy Chairman
 - ix. Shri Ravi Mital, Adviser
- IV. Ministry of Law**
- x. Smt. Z. Hadke, DLA
- V. Ministry of Youth Affairs and Sports**
- xi. Smt. S. Khullar, Secretary
 - xii. Shri P. Krishna, Sports Authority of India
 - xiii. Shri I. Srinivas, Joint Secretary
- VI. Ministry of Road Transport and Highways**
- xiv. Shri P.K. Tripathi, Joint Secretary
 - xv. Shri A.V. Sinha, DG(Road)
- VII. National Highways Authority of India**
- xvi. Shri Brijeshwar Singh, Chairman
 - xvii. Shri V.L. Patankar, Member (T)
 - xviii. Shri J.N. Singh, Member (F)