

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

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**Empowered Institution for the Scheme to Support Public Private  
Partnerships in Infrastructure**

**14<sup>th</sup> Meeting on June 18, 2008**

**Record Note of Discussions**

The fourteenth meeting of the Empowered Institution (EI), chaired by Additional Secretary, Department of Economic Affairs was held on June 18, 2008 in North Block, New Delhi. The list of participants is annexed.

**Agenda Item 1: Approval for increase in estimated total project costs:**

- (i) Four laning of Osmanbad Latur Nanded Highway
- (ii) Four laning of Jalana Deulgaon Berala Phata Road, including Deulgaon Raja by-pass

2. It was noted that the above projects were granted in principle approval by the Empowered Institution in its meetings held in September 2006 and January 2007. Subsequent to inviting and obtaining financial quotes, Government of Maharashtra (GoM) has sought approval for increase in the estimated project costs and release of enhanced viability gap funding. The concession period for the project on four laning of Osmanbad Latur Nanded Highway had also been increased to 30 years to reduce the requirement of Viability Gap Funding for the project.

3. The representative of Government of Maharashtra explained that the State Government had completed the process of pre-qualification of bidders for the project on four laning of Osmanbad Latur Nanded Highway during April, 2006 and five bidders were pre-qualified. However, only two of these responded to the State Government's letter of invitation to bid. The bid in respect of one of the two bidders was found to be invalid since the bidder had considered the cost of two-laning of the project. The second bidder had quoted a very high VGF (*65% of the estimated project cost*). Since the VGF quoted was high, GoM cancelled the offer and invited fresh bids from all the five pre-qualified bidders for a concession period of 30 years, instead of the earlier concession period of 20 years. Single bidder had responded. Similarly, for the project on four-laning of Jalana Deulgaon Berala Phata Road, the

process of pre-qualification of bidders was completed and 7 bidders had purchased the tender documents. However, only one consortium submitted the bid. The bidders of the two projects had estimated the total project costs and quoted VGF based on current price rates and probable future escalation. Being important link roads, the bids have been accepted by the State Government.

4. The representative of Government of Maharashtra explained that during the period of time that has elapsed in the bidding process, there has been substantial increase in the construction cost, resulting in escalation in the project costs. Accordingly, the State Government had received higher quotes for Viability Gap Funding from the bidders and enhanced VGF was being sought under the scheme for financial support for PPPs in infrastructure for the project.

5. The representative of Department of Expenditure noted that Government of Maharashtra, while forwarding the proposals under the Scheme, had made the project reports based on 2004-05 estimates. Since the bidding process was expected to be undertaken during 2007-08, it would have been better if escalation in project cost had been incorporated while preparing the project estimates. The representative of Planning Commission pointed out that the changes suggested in the draft concession agreement of the project had not been incorporated in the project documents before proceeding with the bidding process. It was emphasized that the traffic projections for the project highways did not justify immediate four laning of the project.

6. The members of the Empowered Institution were unanimous in their view that the procedure adopted by GoM of proceeding with the bidding process with revised cost estimates without obtaining prior approval of the Empowered Institution for the enhanced project costs and higher Viability Gap Funding requirement, was a serious departure from the guidelines of the Scheme. Noting that the competent authority in the State Government had decided to accept the bids for the two projects, which were among the first which had been considered by the Empowered Institution after the notification of the Scheme, the Empowered Institution decided to revalidate the 'in principle' approval for VGF support to the project proposal as indicated below:

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|--|-----------------------|
| a. Four laning of Osmanbad Latur Nanded Highway:                                     | VGF of Rs.60 crore    |
| b. Four laning of Jalana Deulgaon Berala Phata Road, including Deulgaon Raja bypass: | VGF of Rs.19.81 crore |

7. The balance requirement of VGF for the two projects, quoted by the bidders and accepted by the State Government, could be provided by Government of Maharashtra. It was noted that allowing the admissibility of enhanced VGF to the projects would result in the total capital grant exceeding the prescribed levels (40% of the estimated project cost) under the Scheme for support to PPPs in infrastructure. The higher Viability Gap Funding for the projects was being allowed only as a special dispensation for these initial project proposals from Government of Maharashtra.

*(Action: Government of Maharashtra)*

**Agenda Item 2: Review of Status of proposals granted in principle approval:**

- a. Four laning of Manjarsumba-Lokhandi-Sawargaon Latur State Highway, Maharashtra**
- b. Four laning of Berala Phata Chikali Khamgaon upto NH 6, Maharashtra**
- c. Four laning of Nashik-Niphad-Aurangabad Road SH-30 (Section Nashik-Niphad Vaijapur road), Maharashtra Four laning of Nashik Auragabad Road**

8. The representative of Government of Maharashtra informed that bids had been sought in respect of the above projects. The status was as under:

8.1 Four laning of Manjarsumbha-Lokhandi-Sawargaon-Latur State Highway, Maharashtra and Four laning of Berala Phata Chikali-Amadapur-Khamgaon upto NH 6, Maharashtra: Bidding process was initiated. Since the VGF quoted for the projects was very high, the tenders were rejected by the State Government. The tenders were reinvited for a concession period of 25 years. No response was received.

8.2 Four laning of Nashik-Niphad- Aurangabad Road SH-30 (Section Nashik-Niphad Vaijapur road), Maharashtra Four laning of Nashik Auragabad Road: Bidding process was initiated. Four entrepreneurs were pre-qualified. No financial bid received from entrepreneurs.

9. The Empowered Institution noted that the Government of Maharashtra should examine the reasons for inadequate response to the projects which could be inadequacy of traffic volumes on the project highways, low toll rates, inappropriately determined concession period or inappropriately selected project length/ structure. It was suggested that these possible causes may be examined, the project cost (based on 2004-05 estimates) reviewed and revised proposals based on standardised/model documents may be posed to the EI for consideration for grant of Viability Gap Funding.

*(Action: Government of Maharashtra)*

**Agenda Item 3: Review of status of project posed for viability gap funding: Western Freeway sea link project in Mumbai.**

10. The representative of Government of Maharashtra was requested to indicate the status of the Western freeway seelink project, which had been posed for assistance under the Scheme and for which complete documents were awaited from the State. The representative of GoM informed that the State Government was considering changes in the project design. The EI decided that the project may be returned to the State Government. The State Government was advised that the revised proposal with complete documentation may be sent for consideration by the EI after finalisation of the project design.

*(Action: Government of Maharashtra)*

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