

**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**

**16<sup>th</sup> Meeting on February 2, 2009**

**Record Note of Discussions**

The sixteenth meeting of the Empowered Institution (EI), chaired by Additional Secretary, Department of Economic Affairs was held on February 2, 2009. The list of participants is annexed.

2. The Empowered Institution noted that there were 14 proposals from five States for grant of 'in principle' approval for Viability Gap Funding (VGF) support. In addition, there were 3 proposals for enhancement of the VGF which had earlier been approved by EI. It was decided, in the first instance, to consider proposals from Government of Andhra Pradesh.

**A. Proposals from Government of Andhra Pradesh**

**Agenda Item 1: Proposals for grant of 'in principle' approval for VGF support**

- i. Four laning of Hyderabad-Karimnagar-Ramagundam Road Project
- ii. Four laning of Narketpally-Addanki-Medarametla Road Project
- iii. Four laning of Puthalapattu-Naidupet Road Project

3. Director (Infrastructure), Department of Economic Affairs (DEA) noted that Government of Andhra Pradesh (GoAP) had forwarded three projects for four laning of State Highways. The feasibility studies indicated that the projects were reasonably viable. The State Government had examined the

observations of Planning Commission regarding the project Draft Concession Agreements (DCAs) and had agreed to those observations, excepting in respect of the following issues:

- i) **Construction period for the three projects:** Representative of GoAP explained that the reduction in the construction period for the three projects to 550 days has not been found feasible by the State Government since the projects are more than 100km in length, with two projects being more than 200 km in length. It has been indicated that the time frame proposed (910 days for project highways of over 200 km and 730 days for the third project) is feasible. The estimation by GoAP was accepted.
- ii) **Interest rates for feasibility study:** It was agreed that lending rate, taken as 14.5 percent by the State Government, may be accepted.
- iii) **User fee:** It was noted that the State Government had agreed that the draft fee notification contained in Schedule R of the DCAs would be notified before the execution of the concession agreement.
- iv) **Project facilities:** The State Government confirmed that the Schedule C of the DCAs had been revised. The representative of Planning Commission indicated that the response of the State Government and the revised Schedules were in order.
- v) **Concession period:** It was noted that the State Government had agreed to reduce the concession period for Narketpally-Addanki-Medarametla Road to 24 years in accordance with the design capacity of the project highways. The concession period for the other two projects was as earlier proposed by the State Government.

4. The representative of the State Government informed that sensitivity analysis of the projects indicated that in case the project costs increase by 10

percent and revenues fall by 10 percent, the projects would require higher grant. Accordingly, it was requested that VGF upto 20 percent of the project cost may be granted in respect of Narketpally-Addanki-Medarametla Road (i.e. Rs.239.36 crore) and Puthalapattu-Naidupet Road (i.e. Rs.105.70 crore). Similarly, the VGF for Hyderabad-Marimnagar-Ramagundam Road may be enhanced to 12 percent of the project cost (i.e. Rs. 177.07 crore). It was noted that the final VGF required would be determined on completion of the bidding process. Further, the Scheme for Financial Support to PPPs in Infrastructure provided for VGF up to 20 percent of the Total Project Cost (TPC) under the Scheme. Hence, the projects could be considered for 'in principle' approval for grant of enhanced VGF, as proposed by the State Government for the three projects.

5. The State Government was requested to undertake the revision of the project documents in accordance with the decisions of the EI and send the revised documents to Department of Economic Affairs with the certification that all agreed to changes have been incorporated in the project document. The projects were recommended for grant of 'in principle' approval to the Empowered Committee for VGF support as proposed by the State Government for the three projects

*(Action: GoAP; DEA)*

**Agenda Item 2: Proposal for enhancement in the TPC and VGF support for Design, Construction, Finance, Operation and Maintenance of Major bridge across river Godavari**

6. It was noted that the State Government had requested EI to consider enhancement of the VGF for the proposal for design, construction, finance

and operation and maintenance of major bridge across river Godavari, which was granted in-principle approval for VGF support of Rs 118.60 crore (20 percent of the approved cost of Rs 593 crore). The representative of the State government explained that on bidding out the project, two bids were received (with VGF requirements of Rs 207.55 crore and Rs 219.60 crore). The State Government has accepted the lower bid of Rs 207.55 crore. However, the TPC for the project needed to be enhanced due to the increase in the cost of construction material since the grant of 'in-principle' approval for the project by the EI. Accordingly, the State government had sought approval for enhanced cost of Rs 808.78 crore and corresponding VGF of Rs 161.71 crore.

7. It was noted that the Scheme did not provide for enhancement of the TPC for a project after completion of the bidding process. Further, the VGF quoted in the accepted bid (Rs 207.55 crore) was 35 percent of Rs 593 crore (i.e. the cost approved by EI). Hence, the additional VGF quoted may be borne by the Sponsoring Authority, in accordance with the Scheme.

8. The State Government was requested to immediately forward the proposal for final approval of VGF support for the project to facilitate onset of disbursement of VGF.

*(Action: GoAP)*

## **B. Proposals from Government of Madhya Pradesh**

### **Agenda Item 3: Proposals for grant of 'in principle' approval for VGF support**

- i. Bhina-Khimalsa-Malthon Road Project**
- ii. Bhind-Miltona-Gopalpur Road Project**
- iii. Damoh Jabalpur Road Project**
- iv. Sagar Damoh Road Project**

9. It was noted that the State Government have forwarded four proposals for strengthening and widening of two laned State highways. At the outset, it was decided to consider the outstanding generic issues in respect of the DCAs of the projects:

- i. **Revenue shortfall loan (Article 28):** Representative of Madhya Pradesh Road Development Corporation (MPRDC) agreed that the interest rate to be provided by the Concessionaire while availing the Revenue Shortfall Loan would be specified in the Article.
- ii. **Schedule K (Maintenance Requirement):** Representative of MPRDC agreed that details which were not relevant to the Schedule K would be removed from the Schedule in consultation with Planning Commission.
- iii. **Schedule Z (State Support Agreement):** Representative of MPRDC explained that since MPRDC, a State Government Undertaking, is the Sponsoring Authority, State Support Agreements for the projects were required for facilitating the execution of the projects. This was agreed to.
- iv. **Schedule of Rates adopted:** Representative of MPRDC informed that the Schedule of Rates for 2008 had been adopted for estimating the project costs.

#### **Bina-Malthan Road project**

10. It was noted that the traffic projections in the Bina-Malthan road project highway were vastly different on the two sections on which the traffic survey had been undertaken. Therefore, it was not appropriate to take an average for determining the traffic projections for the design capacity of the project highway and the concession period for the proposal. The representative of MPRDC explained that the second section was merely a 3.2 km stretch which was necessary to connect the project highway to the National Highway. Accordingly, it had been included in the project proposal.

It was pointed out that different costs had been indicated for the project in the EI memo of the proposal and its annexures (viz. Rs. 59.7 crore and Rs 69.11 crore respectively). The representative of MPRDC confirmed that the TPC was Rs.69.11 crore. The project was granted 'in principle' approval for VGF support of Rs. 13.82 crore (20 percent of the project cost of Rs. 69.11 crore) for a concession period of 25 years.

**(Action:GoMP)**

### **Bhind-Miltona-Gopalpur Road project**

11. The representative of Planning Commission pointed out that the traffic studies on Bhind-Miltona-Gopalpur road project warranted a sectional treatment since the two sections indicated vastly different traffic scenarios and projections. Further, the concession period of the project should be 20 years in accordance with the design capacity of the project highway. The representative of MPRDC indicated that the traffic projections were based on the traffic requirements of section 1 since the second section was a shorter stretch of 8 km required for better connectivity of the project highway. Further, since the proportion of non-tollable traffic on the project highway was high, a concession period of 30 years had been proposed for enhancing the project viability and accommodating traffic at Level of Service – C (LOS-C). It was noted that LOS-C would also get compromised during a concession period of 30 years. It was therefore, decided that the concession period for the project may be kept as 20 years.

12. The project was granted 'in principle' approval for concession period of 20 years for VGF assistance of Rs. 16.58 crore (20 percent of the TPC of Rs.82.89 crore).

**(Action: GoMP)**

### **Damoh- Jabalpur Road Project**

13. The representative of MPRDC confirmed that the proposed Damoh-Jabalpur Road was not a bypass or a loop to a National Highway. It was noted that the concession period envisaged for the project was 25 years, which should be lower since the design capacity of the project highway was being reached with a concession period of 15 years. The representative of MPRDC stated that the proposed concession period of 25 years could cater to the traffic volumes at LOS-C. It was noted that in terms of the traffic projections, a concession period of 18 years could be considered for the project at LOS-C.

14. The project was granted 'in principle' approval for concession period of 18 years for VGF assistance of Rs. 42.43 crore (20 percent of the TPC of Rs.212.13 crore).

*(Action: GoMP)*

#### **Sagar-Damoh Road Project**

15. It was noted that the Sagar-Damoh Road project was similar to the Damoh-Jabalpur Road project and that all the outstanding issues in respect of the project had been addressed. The EI granted 'in principle' approval to the project for a concession period of 18 years for VGF assistance of Rs. 23.3 crore (20 percent of the TPC of Rs.116.5 crore).

*(Action: GoMP)*

#### **C. Proposal from Government of Gujarat**

##### **Agenda Item 4: Proposal for grant of 'in principle' approval for VGF support for Strengthening and widening of Sarkhej Bhavanagar highway**

16. The representative of Government of Gujarat (GoG) made a presentation on the project proposal. It was noted that Bagdogra-Bhavnagar road should not be treated as a competing road. The representative of

DoRTH queried whether concurrence of NHAI had been obtained for proceeding with the bidding process for the project highway. It was clarified that the project was not a competing road for a National Highway. Accordingly, concurrence of NHAI for developing the road in the BOT (Toll) framework was not required.

17. The representative of Planning Commission pointed out that traffic along the entire stretch did not justify four laning of the entire project highway and suggested that sections with greater traffic density should be four laned in the first instance; the other stretches could be four laned when the design capacity was reached. Thus, two-stage augmentation could be considered by the State Government for the project. The representative of Gujarat State Road Development Corporation (GSRDC) explained that on stretches where the road was not satisfactory, traffic tended to move to alternate routes through various cross-roads and the traffic volume on such stretches was consequently depressed. However, after construction of a homogeneous quality, the traffic would remain uniformly high across the entire length on account of the route being shorter vis-a-vis the alternate highway; high road quality; and the anticipated exponential growth in the economic activity in the region due to the SEZ being established at Dholera and development of Delhi-Mumbai industrial corridor. Accordingly, four laning of the project highway is justified.

18. The representative of Planning Commission emphasised that it would be better to consider two-stage augmentation of the project highway to reduce its initial capital cost. The representative of Department of Expenditure suggested that in view of the justification provided by GSRDC, the proposal for four laning of the project highway may be supported. This was agreed to.

19. It was noted that development cost of the project, equivalent to 2 percent of the TPC, had been included in the project. It was decided that the same may not be included in the project cost for the purposes of estimation of VGF for the project. The EI noted that the State Government had sent a compliance statement to the observations of Planning Commission. However, there were certain issues with respect to the Draft Concession Agreement of the project where the State Government was not in agreement with the observations of the legal consultants of Planning Commission. The EI decided to remit the outstanding issues in respect of the DCA to a group of representatives of DEA, Planning Commission and GSRDC for resolution. It was decided that the project could be granted approval subject to resolution of the outstanding issues by the group. In case of any difference of opinion within the group, the EI could meet again to consider the proposal.<sup>1</sup>

*(Action: GSRDC, DEA, Planning Commission)*

20. The State Government was requested to undertake the revision of the project documents in accordance with the decisions of the EI and send the revised documents to Department of Economic Affairs with the certification that all agreed to changes have been incorporated in the project document.

*(Action: GSRDC)*

21. The EI granted recommended the proposal for strengthening and widening of Sarkhej Bhavanagar highway for 'in principle' approval for VGF assistance of Rs. 176.61 crore (20 percent of a project cost of Rs.883.04 crore) to the Empowered Committee.

*(Action: DEA)*

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<sup>1</sup> The Group met on February 10 and examined the observations. The outstanding issues were resolved. Examination of the observations and decisions thereon is at Annex II.

## D. Proposals from Government of Maharashtra

### **Agenda Item 5: Approval for increase in estimated total project costs**

- i. Four Laning of Jalna-Deulgaon Raja-Berala Phata Road including Deulgaon Raja bypass.**
- ii. Four Laning of Osmanbad-Latur-Nanded Highway.**

22. The representative of Maharashtra State Road Development Corporation (MSRDC) stated that the two projects were granted 'in principle approval' by the Empowered Institution in its meetings held in September 2007 and January 2007. Further, the 'in principle' approval was granted with the condition that paved shoulders may be added along the project highways. Accordingly, the cost of the project had increased. The representative of DEA pointed out that Government of Maharashtra (GoM) had not requested for an increase in the estimated project cost on account of inclusion of paved shoulder on any occasion at an earlier date. During the review of the project by the EI in September, 2007 as well as consideration of proposal for enhancement of VGF for the two proposals for four-laning of State Highways by EI during June, 2008, the State Government had ascribed the enhancement of the project cost to the increased cost of construction material.

23. It was noted that when the request had earlier been considered by the EI in its **14<sup>th</sup> meeting on June 18, 2008**, wherein, *inter alia*, 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 EI for the enhanced project costs and higher VGF 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 EI after the notification of the Scheme, the EI decided to revalidate the 'in principle' approval for VGF support to the project proposals as approved for the projects initially. 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.

24. The EI noted that the Scheme does not permit enhancement of the TPC subsequent to completion of the bidding process and reiterated its earlier decision that the quantum of VGF earlier agreed by EI under the Scheme would be provided for the two projects. The balance amount may be provided by GoM as the Sponsoring Authority's contribution.

*(Action: GoM)*

25. The representative of Government of Maharashtra informed that the Concession Agreement had been executed and the Jalna-Deulgaon Raja-Berala Phata road project would require VGF support during the Financial Year 2008-09. GoM was requested to forward the proposals for seeking final approval of the EI for the two projects as well as the Tripartite Agreements to facilitate the onset of disbursement of VGF for the projects.

*(Action: GoM)*

**Agenda Item 6: Proposals for grant of 'in principle' approval for VGF support**

- i. Four laning of Jam Warora-Chandrapur-Ballarpur-Bamni Road**
- ii. Four laning of Wani Ghuggus Road including Wani By-pass**
- iii. Four laning of Aurangabad Paithan Highway**
- iv. Four laning of Baramati-Phaltan-Lonand-Shirwal Highway**

### **Jam Warora-Chandrapur-Ballarpur-Bamni Road project**

26. The representative of GoM informed that the observations of Planning Commission had been incorporated in the Jam Warora-Chandrapur-Ballarpur-Bamni State highway. The revised DCA had been reviewed by Planning Commission and was found to be in order. Accordingly, there were no outstanding issues with respect to the DCA of the project.

27. The representative of DEA pointed out that the traffic on the project highway did not justify a 30 year concession period. The representative of GoM explained that 30-year concession period was justified if both tollable and non-tollable traffic was taken into account. The EI noted that the MCA for State highways provided for determination of the design capacity and concession period based on the tollable traffic on the project highway. The representative of Planning Commission explained that it is assumed that there will be service lanes in urban areas or where non-tollable traffic is very high. The representatives of DEA and DoE suggested that for the purposes of estimating the concession period, both tollable and non-tollable traffic should be taken into consideration.

28. It was pointed out that the cost of the project included the cost of shifting of utilities amounting to Rs.7.26 crore. The TPC for the purposes of determining the VGF assistance should exclude the cost of shifting utilities which may be borne by the Sponsoring Authority.

29. The EI granted 'in principle' approval for VGF support of Rs.89.85 crore (20 percent of the project cost of Rs.449.25 crore) with a 30-year concession period.

*(Action: GoM)*

**Ghuggus Road including Wani By-pass**

30. The EI noted that the four laning of Wani-Ghuggus Road along with the Wani bypass was a 29 km project stretch and was not likely to be viable on a standalone basis. Its viability would improve if it was bid out together with the adjacent stretch of Chandrapur-Kanauji Road project as a 63 km project. It was noted that the State Government was also considering bidding the Chandrapur-Kanauji Road as a separate BOT (Toll) project and seeking VGF support for the project from GoI. The EI decided to return the Wani-Ghuggus Road project to GoM to restructure as a more sustainable project by including Chandrapur-Kanauji stretch and send the same for consideration for grant of VGF support.

**(Action: GoM)**

**Aurangabad Paithan and Baramati-Phaltan-Lonand-Shirwal Road projects**

31. The EI noted that there were outstanding issues regarding the DCAs for four laning of Aurangabad Paithan Road and Baramati-Phaltan-Lonand-Shirwal Road. The representative of GoM stated that the observations of Planning Commission with respect to the DCAs had been incorporated in the project documents. However, there were 16 observations therein which were not in accordance with the published MCA for State Highways (on which the two projects were based). Accordingly, these observations of Planning Commission had not been clearly understood by the State Government or executed in the project documents. It was decided that the group with representatives of DEA, Planning Commission and GoM would examine the

observations of Planning Commission on the project DCAs for resolution of the issues.<sup>2</sup>

*(Action: DEA, Planning Commission and GoM)*

32. The projects were granted 'in principle' approval for VGF support subject to the following conditions:

- i) The outstanding issues in respect of the DCAs would be resolved by the Group with representation from DEA, Planning Commission and GoM.
- ii) The cost of shifting of utilities has been included in the TPC. The cost of shifting utilities may be borne by the Sponsoring Authority and not been included in the TPC for the purposes of estimation of VGF assistance.
- iii) In accordance with the design capacity of the project highways, the concession agreement for Aurangabad Paithan road project may be fixed as 30 years while that of Baramati-Phaltan-Lonand-Shirwal road may be fixed as 25 years.
- iv) To improve the viability of project, the new Toll Rules of the State Government may be made applicable for the projects.
- v) The disbursement of VGF would be in accordance with the procedure prescribed in the Scheme for Support to PPPs in Infrastructure

*(Action: GoM)*

## **G. Proposals from Government of Bihar**

### **Agenda Item 7: Proposals for grant of 'in principle' approval for VGF support**

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<sup>2</sup> The Group met on February 3 and examined the observations. The outstanding issues were resolved. Examination of the observations and decisions thereon is at Annex III and IV.

**i. Widening of 2 lane road between Ara and Mohania**

**ii. Widening of 2 lane road between Aurangabad and Bhita**

33. It was noted that Government of Bihar (GoB) had submitted revised documents after incorporating all the suggestions of Planning Commission. The representative of GoB confirmed that the State Government would accept the toll rates of National Highways for the two projects and that the Manual of Standards and Specifications published by Planning Commission would be adopted for the two projects. It was confirmed that the construction, supervision and EPC costs and development fee would not be included in the TPC of the projects.

34. The EI noted that all issues in respect of the two projects were being addressed by the Sponsoring Authority. The EI granted 'in principle' approval to the proposal for Aurangabad – Bhita sections of State Highway and National Highway for VGF support of Rs.43.62 crore(20 percent of the TPC of Rs.218.16 crore). The EI recommended the Ara-Mohania section of National Highway to the Empowered Committee for grant of VGF amounting to Rs.183.36 crore (20 percent of the TPC of Rs. 917.12 crore).

***(Action: GoB; DEA)***

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

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