

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

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

34th Meeting on 10 August, 2011

Record Note of Discussions

The thirty-fourth meeting of the Empowered Institution (EI), chaired by Additional Secretary and Director General, (Currency), Department of Economic Affairs (DEA) was held on August 10, 2011. The list of participants is appended.

2. The EI considered thirteen proposals, viz, one for in-principle approval from Government of Bihar, one from the State Government of Uttar Pradesh, three proposals (two for final approval and one for in-principle approval) from Government of Karnataka, seven proposals for in-principle approval from Government of Punjab and one proposal for in-principle approval from State Government of Maharashtra for viability gap funding (VGF) support. The EI also reviewed the status of six projects approved earlier from the States of Karnataka (four proposals), Andhra Pradesh (one proposal), and Maharashtra (one proposal).

Agenda Item I: Proposal from the Government of Uttar Pradesh (GoUP): Assistance for four-laning of Varanasi-Shaktinagar road of SH-5A in UP under DBFOT basis. Total Project Cost (TPC) Rs. 1211.96 crore; Length: 117.6 km; VGF Rs. 121.19 crore (10 percent of TPC) and Concession Period (CP) 20 years.

3. Chief Executive Officer (CEO), Uttar Pradesh State Highways Authority (UPSHA) presented the project proposal and indicated that the project was approved in October 2010 with 10 percent of the TPC as VGF amount. Subsequent to the approval, the project was bid out twice. During the first round of bidding, a single bid was received, and hence, rejected; and a second round of bidding was undertaken wherein no bids were received. It was indicated that presently the third round of bidding has commenced and the evaluation of the RfQ responses is underway. The main reasons cited for inadequate response was that there were local interests group who are

unwilling to pay toll for the stretch and also the traffic volume comprises of lower levels of commercial traffic. While estimating traffic for toll collection in the earlier rounds of bidding, the local traffic was not discounted, thus, despite a reasonable overall traffic (i.e. 13,685 PCUs), the project failed to achieve the intended bidding results. In the present proposal, the traffic estimates were revised and suitable changes were made in the project documents, in line with the directions of the EI in its 33rd meeting held on July 20, 2011. It was stated that during the bidding process, the bidders had indicated that project had appeared viable only with 25-30 percent grant. Thus, the UPSHA has conducted a fresh survey in June 2011 and it was assessed that revenue from toll is expected to be lesser by 20-22 percent *viz.-a-viz.* the last assessment. Accordingly, the project documents have been revised and re-circulated to the members of EI. The instant proposal now seeks for higher viability gap funding (VGF) of 20 percent as against the earlier 10 percent of TPC. It was further informed that the project has received all clearances and environment clearance from Ministry of Environment & Forest (MoEF) is not required. Forest clearance is under process.

4. Joint Advisor, Planning Commission indicated that the VGF up to 20 percent of TPC is admissible under the Scheme and the same depends on the actual bid receive as per the market response. Hence, 20 percent VGF may be supported. The other members of EI supported the views of Planning Commission.

5. The EI recommended the proposal to the Empowered Committee of the Scheme for in-principle approval of the project for concession period of 20 years subject to compliance of the following conditions:

- i. UPSHA would send the response to the observations in the Appraisal Notes of the members of EI.
- ii. 90 percent of the land would be provided to the Concessionaire as per the Draft Concession Agreement (DCA) by the Appointed Date.

(Action: Government of Uttar Pradesh/UPSHA)

Agenda Item II: Proposals from Government of Bihar for grant of in-principle approval for development of Rajauli-Bakhtiyarpur section of NH-31 on BOT basis. Total Project Cost (TPC) Rs. 847.1 crore; Length: 107.15 km; VGF Rs. 169.42 crore (20 percent of TPC) and Concession Period (CP) 30 years.

6. Director, DEA indicated that the instant proposal was considered by the EI in its 33rd meeting held on July 20, 2011. It was indicated that EI in the

said meeting had decided that MoRTH would convene a meeting with the State Governments of Bihar (GoB) and Jharkhand (GoJ) to arrive at a final decision regarding the four laning of the stretches. Subsequently, Government of Bihar has informed that the Government of Jharkhand had agreed to develop the balance stretch of the road as a PPP project. Further, it was stated that the VGF sought for the projects is greater than Rs. 100 crore, hence, the same is required to be placed before the Empowered Committee (EC) for its approval.

7. Joint Secretary, MoRTH conveyed the support of the Ministry for development to the instant project the members of the EI. The support was concurred with by other members of the EI.

8. The EI recommended the proposal to the Empowered Committee for in-principle approval of the project subject to compliance of the following conditions:

- i. GoB would circulate revised projects documents to the members of EI.
- ii. The environmental, forest and other approvals and clearances would be obtained before the award of the Project.
- iii. 80 percent of the land would be provided to the Concessionaire as per the Model Concession Agreement (MCA) by Appointed Date.

(Action: Government of Bihar)

Agenda Item III: Proposals from Government of Karnataka for grant of final approval for:

- i. **Improvement of Whagdhari Ribbanpally road SH10 Total Project Cost (TPC) Rs. 238.58 crore; Length: 135.85 km; VGF Rs. 90.66 crore (38 percent of TPC) and Concession Period (CP) 30 years.**
- ii. **Improvement of Dharwad Ramnagar road SH 34 Total Project Cost (TPC) Rs. 230.29 crore; Length: 60.4 km; VGF Rs. 82.90 crore (36 percent of TPC) and Concession Period (CP) 30 years.**

9. The representative of Government of Karnataka presented the proposal. It was informed that financial closure has been achieved in respect of both the project and construction works have commenced.

10. Director DEA indicated that VGF bids have been received on Net Present Value (NPV) basis instead of absolute value calculated from the TPC. Joint Advisor, Planning Commission pointed out that overall VGF quoted by the L-1 Bidder in both the cases was less than 40 percent of the TPC on NPV basis. However, in absolute value terms, in respect of **Whagdhari**

Ribbanpally road, the negotiated VGF was 47.15 percent of TPC (38 percent of TPC on NPV basis discounted at the rate of 10 percent) and for Dharwad **Ramnagar road** negotiated VGF was 40 percent of TPC (36 percent of TPC on NPV basis discounted at the rate of 10 percent). In response, the representative of Government of Karnataka informed that VGF on NPV basis was invited as per the terms and conditions in the project documents which had the approval of the EI and Government of Karnataka. Further, these were the first two projects from the State Government, hence it was requested that the projects may be approved. Joint Advisor, Planning Commission, stated that they are in concurrence for provision of final approval subject to the VGF approved by the EI may be restricted to 20 percent of TPC on absolute terms for the Government of India (GoI) component, subject to the written confirmation from the State Government that the balance amount in absolute value shall be borne by the them.

11. Joint Advisor, Planning Commission in response to Director DEA, indicated that they had examined the Financial Documents of the Lead Financial Institution (LFI) and conveyed their concurrence for the same.

12. Director, DEA indicated that detailed examination with regards to the certificates and financing documents provided by the Government of Karnataka and acceptance of VGF on NPV basis were yet to be examined by DEA.

13. The EI **deferred** the above mentioned two projects subject to further examination of the documents and written confirmation by the State Government that VGF, in absolute value, in excess of 20 percent of TPC (GoI share) shall be borne by the State Government.

(Action: DEA and Government of Karnataka)

Agenda Item IV: Proposals from Government of Karnataka (GoK) for grant of in-principle approval for High Speed Rail Link (HSRL), Bangalore, TPC Rs. 5844.50 crore, VGF of Rs. 1168.90 crore and Concession period of 30 years

14. Joint Advisor, Planning Commission indicated that the project is proposed to be developed under the Central Act. Hence, the project may be posed by MoUD.

15. OSD, MoUD informed clarified that Metro Railways are a Central Sector subject and MoUD can authorise the State Government to implement the Metro Projects. It was stated that Secretary, Economic Affairs, for another

project had advised that since the project is proposed to be developed under the Central Sector, the in-principle approval of the PPPAC may be obtained. Hence, since High Speed Rail Project of Bangalore is being envisaged as a Central Sector Project to be undertaken under the Central Acts i.e. the Metro Railways (Construction of Works) Act, 1978 and Metro Railways (Operation & Maintenance) Act, 2002, therefore, the same may be taken off the agenda of the instant meeting. MoUD would obtain the approval of the PPPAC for the project.

16. Director, DEA pointed out that in case the project requires VGF, it would require to be posed to the EI for consideration, even if it is proposed to be developed under the Central Act.

17. Principle Secretary, GoK informed that RFQ was invited in 2009, after approval by the EI and five bidders have been shortlisted. The process for Land Acquisition has already commenced by the State Government and the cost of project has substantially increased from initially Rs. 3,000 crore to presently, Rs. 6,000.0 crore. Hence, further delay of project may be avoided and requested EI to approve the project.

18. OSD, MoUD indicated that entire cost increase is not due to delay in approving the project, but, largely on account of change in scope of work and the earlier cost estimates were unrealistic.

19. Joint Secretary, DEA stated that after incurring a large amount of costs on project development and its processes including land acquisition and undertaking the RfQ evaluations, the project may not be withdrawn.

20. Joint Secretary, MoRTH pointed out that in case of National Highways (NH), MoRTH also entrusts the NH to State for development processes. Thus, the implementation of the project may be allowed to be undertaken by GoK.

21. Joint Advisor, Planning Commission indicated that Metros may either be Central Sector or State Sector, in case of a Joint Venture as the case is for HSRL, it is unclear who would take up the contingent liabilities for the project. Further, it was pointed out that Construction of Metro Act, 1978 does not provide for operation and maintenance of projects in the PPP mode.

22. OSD, MoUD reiterated that the Metro Act provides for implementation of the project on PPP basis. It was pointed out that under the 1978 Act there

was no distinction between Government or non-Government bodies for construction purposes, while the India Railways Act provides for the same separately. For the O&M purposes an O&M Act, 2008 has been provided. It was stated that these Acts must be read in conjunction with each other for the development of Metros. With regard to Delhi Metro's project, the Airport link, it was clarified that this project was taken up for development completion before the Common Wealth GAEMS (2010). Hence, this project was not comparable to HSRL project. Further, construction risk clearances were given to Government (DMRC), which are much faster than that may be accorded to any private company. He further indicated that present Act needs further clarity to develop the Metros on PPP basis and the same is likely to be placed before the Cabinet during its Winter Session.

23. Joint Advisor, Planning Commission stated that it may be advisable to wait till the amendment is carried out by the Cabinet particularly with respect to the fixation of the fares, which can be modified by the Central Government. OSD, MoUD stated under the Central Government, it is the Metro Administration which shall fix the basic fares and the fare fixation committee shall be appointed to fix fares. For this project increase in fares shall be prescribed upfront in the Concession Agreement like for the other PPP projects, and the formula for the same has been covered in the Draft Concession Agreement for fixing fares and its increase.

24. The Chairman observed that the project may not be shelved as this would send out wrong signal to the State Governments who are keen to develop Metro projects in the PPP mode. It was stated that no procedures to be violated in order to do so. Further, he indicated that Planning Commission and MoUD may undertake a joint meeting in order to sort out the issues with regards to matter, specifically with regard to financial understanding and legal compliances.

25. The EI deferred the project and advised GoK to resolve the outstanding issues with the Planning Commission and MoUD. Planning Commission and MoUD

(Action: Planning Commission, MoUD and GoK)

Agenda Item D: Proposals from Government of Punjab (GoP) for grant of in-principle approval for seven projects;

- i. 2-laning with PSS of Nidampur (from NH-64) to Sullar Gharat to Lehra Ghagga (till NH-71) Road on BOT (Toll), TPC of Rs. 153 crore, VGF Rs 30.60 crore, Concession period- 22 years.**

- ii. 4-laning of Manpur-Barnala-Bhatinda section of SH 13 on BOT (Toll), TPC of Rs. 145 crore, VGF Rs 42.05 crore, Concession period- 22 years.
- iii. 4-laning of Manpur-Jagraon-Rajkot-Abohar section of MDR 51 on BOT (Toll), TPC of Rs. 182 crore, VGF Rs 18.20 crore, Concession period- 20 years.
- iv. 2-laning of Morinda – Kurali – Siswan – H.P. Border Road (MDR-31) on BOT (Toll), TPC of Rs. 71.11 crore, VGF Rs. 14.22 crore, Concession period- 18 years.
- v. 2-laning with PSS of Batala-Mehta-Beas Road to on MDR-66 Road on BOT (Toll), TPC of Rs. 68.31 crore, VGF Rs. 13.66 crore, Concession period- 21 years.
- vi. 2-laning with PSS of Kotkapura to Muktsar Road to on SH-16 Road on BOT (Toll), TPC of Rs. 65.04 crore, VGF Rs 13.01 crore, Concession period- 18 years.
- vii. 2-laning of Kapurthala-Nakodar-Phillur Road (MDR-48) on BOT (Toll), TPC of Rs. 136.59 crore, VGF Rs. 27.32 crore, Concession period- 16 years.

26. Director, DEA stated that EI had considered that seven projects in its 32nd meeting held on July 4th 2011 and had deferred the projects for submission of revised documents, which to complied with the observations of the DEA, Planning Commission and MoRTH .

27. Principle Secretary, GoP has intimated that they have accepted all the observations of the member of the EI and have revised the documents accordingly. Further, it was pointed out that the land was in possession of the PWD and a no objection certificate has been issued for the project by the Chief Secretary, a copy of the same had been provided to the members of the EI.

28. Joint Advisor, Planning Commission stated that GoP should confirm that project costs are sufficient for completion of the projects as it has been observed that the TPC has been reduced from the figures in the earlier set of documents submitted to the EI. Principle Secretary, GoP responded that the TPC is sufficient to undertake the project works and no elimination of essential items has been undertaken.

29. Planning Commission and MoRTH indicated their concurrence with grant of approval for all the seven projects.

30. The Chair sought for a written confirmation that GoP shall not come back to the EI with another variation in costs and that the project costs were final.

31. Director, DEA indicated that out of the seven projects GoP has requested GOI share of maximum 20 percent of TPC for 6 projects and 10 percent of TPC for one project namely Manpur-Jagraon-Abohar section. Confirmation was sought on the instant project that 10 percent of TPC as VGF was sufficient and the State Government will not revert to the EI for increase in VGF after the bidding process has been completed. Principle Secretary, GOP responded, that this project may not require VGF greater than 10 percent of TPC, thus, GoP has requested only for this amount.

32. The EI granted in-principle approval to all the seven projects subject to:

- a) The environmental, forest and other approvals and clearances would be obtained before the award of the Project.
- b) 90 percent of the land would be provided to the Concessionaire as per the Model Concession Agreement (MCA) by Appointed Date.
- c) Written confirmation that no further variation in costs shall be undertaken for the project and for one project (Manpur-Jagraon-Abohar section) VGF is limited to 10 percent of TPC.

(Action: GoP)

Agenda Item E: Proposal from Government of Maharashtra (GoB) for grant of in-principle approval for four-laning of Shikrapur -Nhavra-Kedgoan-Chousla, km 53 to km 81.4 of SH-55, and km 16.8 to km 41.7 of SH-62, TPC Rs. 457.48, VGF of Rs. 91.50 crore and Concession period of 25 years

33. Director DEA indicated that the concession period has been proposed for 25 years. However, based on the project average total traffic, the CP may be 22 years. Further, the cost of the project and proposed construction period of 3 years appears to be on the higher side and may be reviewed by the State Government. Clarification with regard to whether the project was a competing facility to Pune-Sholapur facility of NH-9 was sought.

34. Representative of GoM responded that the concession period has been based on the estimated traffic projections on ring road, including the diverted traffic. Traffic growth rate has been taken lower than 5 percent per annum due to various road developments like Pune ring road, Eastern bypass through Pune etc. further, it was highlighted that the existing road is in very poor condition, hence, entire road needs to be reconstructed. Three major bridges, re-decking of one long bridge, one ROB has also been included in the scope of work, making the TPC appear higher. Construction period of 3 years

has been recommended based on the scope of work that includes completion of major structures. It was stated that the project shall act as a bypass to the Pune City, is 45 km away from the city, Chofula, the location from where the project starts is 10 km away from the NHAI road and the Toll plaza is around 10 km away from the location. Thus, this shall not be a competing road to NHAI.

35. Representative of MoRTH sought a clarification with regard to the traffic, whether the diversion as projected may be possible as it appears on the higher side. Representative of GoM stated that presently the traffic is heavily congested and thus diversion of traffic is likely.

36. Joint Secretary, DEA sought clarification whether the toll rates were varying for the bypass and other roads. Further, it was enquired whether the buyback of the exiting toll plaza will get loaded to the Concessionaire. Representative of GoM stated that as per Toll Policy of the State, the rates for Bypass and other roads were same and buyback of the existing toll plaza shall be borne by the State Government and shall be removed from the TPC of the project. The revised TPC is Rs. 441.15 crore.

37. The EI granted in-principle approval to all the seven projects subject to:

- a) Deletion of buy back cost of existing toll plaza from the TPC.
- b) The environmental, forest and other approvals and clearances would be obtained before the award of the Project.
- c) 90 percent of the land would be provided to the Concessionaire as per the Model Concession Agreement (MCA) by Appointed Date.
- d) Submission of revised documents after incorporation of comments of the appraising bodies.

(Action: Government of Maharashtra)

Agenda Item VII: Review of viability gap funding (VGF) projects under the Scheme from the State Government

38. The EI reviewed the proposals earlier approved by the EI from the State Governments of Karnataka, Maharashtra and Andhra Pradesh.

A. Status of proposals of Government of Karnataka (GoUP)

39. Principle Secretary, GoK informed that four projects have been granted in-principle approval for VGF support under the Scheme. The bid process has been completed in respect of three projects. One project, viz., 2/4 laning of Bellary to AP Border section of SH 132 in Karnataka on BOT (Toll) basis did

not get a response and is now being developed on BoT (Annuity) basis. The status of bid process as indicated is reproduced at **Annex- I**.

B. Status of metro proposal of Government of Andhra Pradesh (GoAP): Hyderabad Metro Rail project. Total Project Cost (TPC) Rs. 12132 crore, (approved TPC was Rs. 11814 crore); Date of approval: 08.07. 2010; VGF Rs. 2362.08 crore and Concession Period (CP) 20 years.

40. Managing Director, Hyderabad Metro Rail presented the status. The VGF quoted by the L₁ bidder (M/s L&T) was Rs. 1458 crore (12.01 percent of TPC). Concession Agreement has been signed and financial closure has been achieved. Entire Right of Way (RoW) has been provided to the Concessionaire and construction work has been commenced, which are being monitored by the Independent Engineer (M/s Louis Berger). Since as per the Concession Agreement, Concessionaire has to expend its entire equity before disbursement of VGF, hence, it is expected that there shall be no requirement for VGF in the current financial year and first release of grant may be in the year 2012-13.

C. Status of metro proposal of Government of Maharashtra (GoM): Mumbai Metro, line 2. Total Project Cost (TPC) Rs. 7660 crore; Date of approval: 31.10. 2008; VGF Rs. 1532 crore and Concession Period (CP) 30 years.

41. The representative of MMRDA presented the status of the proposal. The VGF quoted by the L₁ bidder (M/s Reliance consortium) was Rs. 1532 crore (20 percent of TPC) with Rs. 766 crore as GoM share. Concession Agreement has been signed on January 25, 2011 and financial closure has been achieved on March 14, 2011. Out of the total 32 km, RoW has been cleared for 22 km. A Spanish firm in joint venture has been appointed as the Independent Engineer. Design drawings have been submitted to the Independent Engineer for scrutiny. Since as per the Concession Agreement, Concessionaire has to spend its entire equity before release of VGF, hence, there may not be requirement for VGF in the current financial year and first release of grant may be in the year 2012-13.

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

Annex I

Status of projects of Government of Karnataka

S.No.	Name of Project	Total Project Cost (TPC)	Date of in-principle approval by EI	VGF Approved (Rs. Crore)	Status
1	2/4 laning of Bellary to AP Border section of SH 132 in Karnataka on BOT (Toll) basis	176.50	22.01.2007	35.30	No response . Project awarded on BOT (Annuity). No VGF required
2	Improvement to Chikkanayakanahalli Tiptur Hassan Road	225.80	05.03.2008	45.16	LOA issued on 30.04.2011 with 39 percent VGF.
3	Improvements to Dharwad-Ramnagara Road	237.60	05.03.2008	47.52	Under Construction. FC achieved on 3.12.2010. Project seeking final approval from EI
4	Improvement to Waghari-Ribbanapally Road	245.51	05.03.2008	49.10	Under Construction. FC achieved on 03.12.2010. Project seeking final approval from EI