Government of India
Ministry of Finance
Department of Economic Affairs
PPP Cell
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Empowered Committee for the Scheme for Financial Support to Public Private Partnerships in Infrastructure

Fourth Meeting on August 25, 2008

Record Note of Discussions

The fourth meeting of the Empowered Committee (EC), chaired by Finance Secretary, was held on August 25, 2008 in North Block, New Delhi to consider a proposal from Government of Maharashtra for grant of 'in-principle approval' for Viability Gap Funding for Mumbai Metro Rail Project – Corridor II (Charkop-Bandra-Mankhurd). The list of participants is annexed.

2. The Empowered Committee noted that the proposal was considered by the Empowered Institution in its 8th Meeting held on January 1, 2007 which had accorded in-principle approval to MMRDA to proceed with the pre-qualification of bidders for the project subject to the conditions that MMRDA would finalise the capital cost after obtaining options of alternative technologies examined and recommended by the consultant; and would adopt the MCA for Metro Rail Projects and the bidding process recommended by the Empowered Institution. Subsequently, the EI, in its 11th meeting held on September 12, 2007, had reviewed the status of the proposal and advised MMRDA, pending finalisation of MCA, to finalise the project documents in consultation with Ministry of Urban Development (MoUD). Accordingly, MMRDA had submitted revised proposal along with Draft Concession Agreement for grant of in-principle approval and permission to proceed ahead with the invitation of financial bids. The completion cost of the project has been revised to Rs.8250 crore (excluding State taxes and duties) on account of escalation in the construction costs and consequential changes in the IDC. The Draft Concession Agreement has been revised by MMRDA on the basis of the draft concession agreement of the Hyderabad Metro Rail project (which was approved by the Empowered Institution on April 10, 2008 and the Empowered Committee on April 30, 2008).

3. The Empowered Committee noted that the Empowered Institution considered the proposal on August 5, 2008. The EI noted that the Project Authorities

were willing to utilize area of about 4,000 sq. mts at one level above each of the 27 stations for commercial development so as to have land use and transport integration and also generate resources. It was noted that MMRDA had examined the observations of MoUD and DEA on the Draft Concession Agreement for the project and agreed to revise the documents to suitably incorporate the suggestions. The EI suggested that Government of Maharashtra (GOM) may also examine the Manual of Specifications and Standard prepared by Government of Andhra Pradesh for Hyderabad Metro Rail project before finalising their Manual. The EI noted that the estimated cost of the project after excluding the ineligible items as expenditure on R&R was Rs 7660 crore with Rs.1532 crore as VGF calculated @ 20% of the project cost. Subject to the above conditions, the Empowered Institution recommended the proposal for grant of in-principle approval to the Empowered Committee. Subsequently, MMRDA had revised the project documents and sent them certifying that all the agreed-to amendments have been incorporated in the revised documents.

4. The Empowered Committee noted that Planning Commission had expressed reservations during the meeting of the Empowered Institution regarding the State Government not accepting property development at the car depots at Charkop and Mankhurd to improve the viability of the project.

5. Principal Adviser to Deputy Chairman, Planning Commission stated that Planning Commission had not commented on the draft concession agreement of the project. Further, the revision of the cost to Rs.8250 crore by the Project Authorities required further examination. He suggested that DMRC should certify that the enhanced project cost was reasonable. He stated that there were departures in the project DCA from the DCA approved earlier for HMR project by the EI and EC. It was suggested that the revised documents sent by the Sponsoring Authority should be examined to ensure that only approved changes had been incorporated in the project documents. It was indicated that Planning Commission supported the proposal. However, it had reservations regarding the project documents and the limited real estate component in the project structure.

5.1 The revised project documents, especially the draft concession agreement and the Manual of Standards and Specifications were received recently. These are being appraised in consultation with the legal advisers. As the provisions of these documents affect the bid amount, and hence the VGF payable by the Central Government, the project authorities may be advised to carry out the modifications proposed by the Planning Commission and in the event of disagreement, revert back to the Empowered Committee.

5.2 A typical Metro project is financially unviable owing to high capital costs and low fares. It is, therefore, necessary to internalise revenues from project assets, especially real estate, with a view to improving financial viability and reducing the VGF payable by the Central/State Governments. The real estate provides a significant source of revenue in Delhi and Hyderabad Metro projects and there is little justification for departing from this structure in case of the Mumbai Metro Project. Planning Commission, therefore, does not support the proposal to prohibit the Concessionaire from using floor space above the maintenance depots for generating revenues to fund the losses of the project. On several occasions, the structuring of metro projects have been discussed in the Planning Commission at the level of Deputy Chairman who has also been apprising Prime Minister of the same. Planning Commission view is that project assets, especially land forming part of the project, should be fully leveraged to enable the project to be self-sustaining with the least possible VGF. Unless this is insisted upon, it will be easy for State Authorities to exclude potential benefits from land development from the revenue stream of the project thus leading to excessive VGF.

6. The representative of Government of Maharashtra (GoM) stated that the State Government had first sent the documents two years ago and all the decisions of the meeting of EI had been incorporated in the project document and requested that the project may be granted approval to enable the State Government to issue the RFP.

7. Secretary, Ministry of Urban Development (MoUD) noted that all these issues were considered at length during the meeting of the EI and therefore, should be reviewed by the Empowered Committee only if there was new information or new perspectives. He stated that the project was examined by the Department and broadly observed the draft concession agreement for Hyderabad Metro Rail project. He noted that Planning Commission had raised two issues, viz., the estimation of the total project cost and deviations in the project DCA vis-à-vis the DCA of Hyderabad Metro Rail (HMR) Project. The completion cost of the project had been circulated before the meeting of the Empowered Institution and discussed during the EI meeting. The cost had also been examined by MoUD and the project cost of Rs. 7660 crore, after excluding the ineligible items for estimation of Viability Gap Funding was found to be reasonable. He stated that comparison of HMR and Mumbai Metro Rail would not be appropriate since the project cost would vary across cities based on the local conditions and the project structure. It was pointed out that the base cost of the two projects had also varied. Therefore, MoUD was satisfied that the project cost had been revised with due diligence.

8. Secretary, MoUD noted that the Scheme required that departures in the project documents from the approved MCA should be indicated to facilitate the appraisal process. He indicated that the Model Concession Agreement for Metro projects was being prepared by observing an inter-Ministerial consultation process. However, the process has not reached finality. Hence, the approval of the competent authority for MCA for metro project had not been sought. Accordingly, the project DCA has been examined in relation to the DCA for HMR project. However, MoUD

did not advocate that the DCA for HMR project should be used as a standard for all metro projects in the country. Stating that MoUD was strongly in favour of execution of the project, he emphasised that issue of property development for Metro projects could not be handled uniformly across the country. The State Government had incorporated the suggestion of commercial development to the extent possible at the 27 stations for improving the viability of the project. The reservations of the State Government for further property development needed to be respected. Furthermore, there was requirement for Metro car-parking space for the project. He complemented the State Government for willingly and promptly responding to the observations of all members of the EI and incorporating the suggested changes. A certification to this effect had also been sent by the Project Authorities. He suggested that since all the outstanding issues had been resolved, the project may be granted approval.

9. Representative of Department of Expenditure stated that the matters had been deliberated at length and decided at the EI stage and the cost of Rs.7660 crore had been accepted by the EI.

10. Joint Secretary, DEA pointed out that the Scheme for Financial Support to PPPs in Infrastructure does not state that the project cost has to be certified by a particular consultant. The Scheme prescribes that the concerned Government/statutory entity should certify that the capital costs are reasonable and based on the standards and specifications normally applicable to such projects and that the capital costs cannot be further restricted for reducing the viability gap. The requisite certification had been provided by the Sponsoring Authority in accordance with the Scheme. Hence, it may be accepted.

11. Joint Secretary, DEA drew attention to the paras 4, 9 and 10 of minutes of the meeting of the EI held on August 5, 2008. He noted that the detailed comments on the DCA by MoUD and DEA took into account all the departures from the DCA of HMR. The appraisal note of Planning Commission was received during the prescribed period and responded to by the Project Authorities. The matter was deliberated upon during the said meeting of the EI. The revised document had been sent by the Project Authorities for record, with the certification decided upon by the EI. A similar process had also been observed for HMR project. He further reiterated that while Ministry of Finance supported enhancing the viability of a project through property development, making real estate development as part of the PPP projects is not an approved policy of the Government of India, or a provision under the Scheme for Financial Support to PPPs and, therefore, a project proposal cannot be rejected on this ground.

12. The Chairman of the Committee noted that the total project cost of Rs. 7660 crore for the purposes of the Scheme for determination of the VGF was acceptable since the EI after consideration had recommended it; the certification by the Project Authorities conformed to the provisions of the Scheme. The final Viability Gap Funding would be the lower of 20% of this cost or the project cost as sanctioned by the Lead Financial Institution or as actually expended, as provided for in the Scheme.

13. The Chairman noted that in accordance with the guidelines of the Scheme, the project documents had been circulated to the members of the EI, including to Planning Commission, offering sufficient and equal opportunity to all concerned to undertake detailed appraisal of the DCA and the Manual of Standards and Specifications during the prescribed period. He queried whether the State Government could utilise the space available for property development subsequent to the grant of the concession and disbursal of VGF. It was clarified that property development could not be made as part of the Concession Agreement after its execution. It will result in the State Government having to return the disbursed VGF to Government of India. However, the State Government could, if so required, commercially utilise the FSI for strengthening of the metro system. He noted that the Project Authorities had certified that all the changes have been incorporated in the documents. However, in view of the concerns of Planning Commission, he suggested that the State Government certify that the revised project documents sent by the State Government reflect all the changes and only the changes suggested by the Empowered Institution.

14. Subject to the above condition, the Empowered Committee recommended the project to Finance Minister for approval of viability gap funding support of Rs 1532 crore

16. The meeting ended with a vote of thanks to the Chair.