

**F. No. 3/10/2015-PPP
Government of India
Ministry of Finance
Department of Economic Affairs
(PPP Cell)**

New Delhi the, August 05, 2015

OFFICE MEMORANDUM

Subject: Record of Discussions of the 65th Meeting of the Empowered Institution (EI) for the Scheme for Financial Support to PPPs in Infrastructure (Viability Gap Funding Scheme).

Please find enclosed the Record of Discussions of the 65th Meeting of the Empowered Institution (EI) for the Scheme for Financial Support to PPPs in Infrastructure (Viability Gap Funding Scheme), held on **July 24, 2015**, under the **Chairmanship of Additional Secretary (Investment), Department of Economic Affairs.**

Encl: as stated


(Abhitasha Mahapatra)
5.8.15 Director (PPP)

1. Dr. Arunish Chawla, Joint Secretary, Department of Expenditure, North Block, New Delhi.
2. Shri Praveen Mehto, Adviser (Infrastructure), NITI Aayog, Yojana Bhawan, New Delhi.
3. Shri R.K. Singh, Joint Secretary, Ministry of Road Transport & Highways, Transport Bhavan, New Delhi.
4. Shri D.B. Gupta, Principal Secretary, Public Works Department, Government of Rajasthan, Jaipur

Copy to:

1. Sr. PPS to Additional Secretary (Inv)
2. PS to JS (Infra), DEA

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

65th Meeting on 24th July, 2015

Record Note of Discussions

The sixty-fifth (65th) meeting of the Empowered Institution (EI), chaired by Additional Secretary, Department of Economic Affairs (DEA) was held on July 24, 2015. The list of participants is attached.

The EI noted that there were three (3) proposals for consideration for viability gap funding (VGF) under the Scheme. These proposals are in road sector for in-principle approval of VGF from Government of Rajasthan (GoR).

The EI noted that the Scheme for Support to PPPs in Infrastructure prescribes that VGF up to Rs. 100 crore for each project may be sanctioned by the EI, proposals for VGF up to Rs. 200 crore may be sanctioned by the EC, and amounts exceeding Rs. 200 crore may be sanctioned by the EC, with the approval of the Finance Minister.

A. Proposals from Government of Rajasthan for grant of In-Principle Approval in Road sector

I. Development, Operation & Maintenance of Dungargarh to Rajgarh Section of SH-06 from Km. 71 to Km. 231 through PPP on DBFOT (Toll) Basis.

Total length: 160 km; Total Project Cost: To be finalised; Concession Period: 25 years including 1.50 years of construction period.

Major development works/ structures: Toll Plaza -3 at km 95.200, at km 150.60 & km 214, Bus Bays/ shelters -42, Overhead Traffic Signs – 20 locations, Wayside Amenities - at three locations (Cafeteria with drinking water facilities, toilets, etc), Toll Plazas shall include office building, Traffic Aid Post, Medical Post, paved parking and unloading of vehicles. Roadside Furniture, Pedestrian facilities, tree plantation, etc as per manual, Truck Lay byes- 1 at km 169.100

II. **Development, Operation & Maintenance of Dadu to Chhan Section of SH-37 from Km. 40 to Km. 144 through PPP on DBFOT (Toll) Basis**

Total length: 105.81 km; Total Project Cost: To be finalised; Concession Period: 25 years including 1.50 years of construction period.

Major development works/ structures: Toll Plaza -2 at Km 11.20 and at Km 66.00, Bypasses: 3 of 2.60 Km, Bus Bays/ shelters - 13, Overhead Traffic Signs - 7 locations, Wayside Amenities - 1 at km 63.10 (Cafeteria with drinking water facilities, toilets, etc), Toll Plazas shall include office building, Traffic Aid Post, Medical Post, paved parking and unloading of vehicles. Roadside Furniture, Pedestrian facilities, tree plantation, etc as per manual, Truck Lay byes- 1 at km 63.10

III. **Development, Operation & Maintenance of Mangalana Junction to Khatu Section of SH-2B from Km. 0.0 to Km. 52 and Makrana to Parbatsar Section of SH-2D from Km. 0.0 to Km. 22.30 through PPP on DBFOT (Toll) Basis**

Total length: 74.3 km; Total Project Cost: To be finalised; Concession Period: 25 years including 1.50 years of construction period.

Major development works/ structures: Toll Plaza -3 at km 1.750 on SH 2B, at km 44 & at km 13 on SH2D, Bypasses: 6, Bus Bays/ shelters - 12, Wayside Amenities - 1 at km 28.75 (Cafeteria with drinking water facilities, toilets, etc), Toll Plazas shall include office building, Traffic Aid Post, Medical Post, paved parking and unloading of vehicles. Roadside Furniture, Pedestrian facilities, tree plantation, etc as per manual, Major Junctions; 18, Minor Junctions; 53, Culverts; 22 (new) & 8 for widening.

2. Joint Secretary, DEA stated that there are three projects from Government of Rajasthan for In-principle approval of VGF. It was observed that many of the issues raised in the appraisal notes of the EI members were similar for all three projects, for e.g. EI members had indicated that the Total Project Cost (TPC) in respect of the projects at Agenda I & II have been calculated by adding more than 50% of the civil cost as against 25% allowed as per the MCA, Highways.
3. Joint Secretary, DEA emphasized the importance of TPC for a BOT project, as the VGF Grant and viability of the project is directly linked to the TPC. The TPC needs to be estimated based on Bill of Quantities, Schedule of Rates following the standard procedure and guidelines as illustrated in the MCA, Highways. As per the MCA, only 25% of Civil Cost is to be added on the base civil cost to arrive at the TPC. All other items like physical contingencies, IDC, escalation in cost, etc. are included in the 25%. Hence, there is duplication of items while estimating the TPC. Thus TPC may be revised as per MCA. The detailed calculation of 25% of

civil cost may also be worked out instead of adding directly. The members of Niti Aayog and MoRTH have also raised the issue related to high TPC calculation. Niti Aayog pointed out that in all PPP Projects the permissible amount towards "other costs" is 25% of the civil cost, but in the case of Dungagarh-Rajgarh Section 52.55% of the total civil cost has been added which is twice of permissible limit. The TPC of the projects should be revised accordingly.

(Action: GoR)

4. Executive Engineer, MoRTH also stated that the relevant Schedule of Rates and detailed cost estimates have not been provided to justify the calculation of the civil cost. Additional Chief Engineer, GoR responded that in World Bank, ADB and other external agency funded projects, cost is calculated as per their specific guidelines, however, in the proposed BOT projects, cost has been calculated based on the market rates/ performance based using standard data book of MoRTH. The Chair indicated that cost should be calculated based on the latest PWD Schedule of Rates (SOR) of the district in which project is located. All members of the EI were in agreement that GoR may clarify how the cost have been calculated and also reconcile the TPC as per the standard guidelines being followed in other road projects. This was agreed to by GoR.

(Action: GoR)

5. Executive Engineer, MoRTH stated that the design capacity of the Project Highway (18000 PCUs) is justified for 2-lane with paved shoulder, however, in the absence of paved shoulders throughout the length of the Project Highway (as per DCA), the design capacity need to be reviewed. Principal Secretary, GoR stated that the existing road is single or intermediate lane (about 5.5 m) and proposed to be 2 lane with paved shoulders (10 m) as these corridors are important linking to Haryana state and Delhi. Keeping the traffic volume, the capacity of the road would not be breached during the concession period of 25 years

6. Joint Secretary, DEA stated that in the proposed projects, additional support to in the form of a compensation for exempted traffic through a provision of Deemed Shadow Fee (DSF) have been included. The Draft Concession Agreements (DCA) provides for a fixed payment to the Concessionaires for ten years from Commercial Operations Date (COD) in lieu of the exempted vehicles as per the GoR's notified toll policy. As per the Scheme for Support to PPPs in Infrastructure, the VGF can be provided upto 40% of TPC. Further in the projects at Agenda II & III (Dadu to Chhan Section and Manglana to Khatu Section), the total support is over 40 % of the TPC indicating that the projects are not commercially viable. The grant amount as per the VGF Scheme is to be discovered through an open competitive bidding process, the State Government has fixed an amount of grant upfront before bidding and this is not in line with

the VGF Scheme. Director, DoE also pointed out that in PPP projects, the traffic risk is borne by the Concessionaire, hence provision of Deemed Shadow Fee to mitigate the risk of traffic is not justified. Similarly, the combined grant proposed is way ahead of maximum permissible grant of 40% of TPC under provision of the existing DEA's VGF Scheme and hence provision of Deemed Shadow Fee is not supported.

7. Principal Secretary, PWD, GoR responded that VGF Scheme does not restrict any payment in the Operation & Maintenance period and that GoR has followed the MCA published by the Planning Commission. He stated that the MCA was approved by the State Cabinet based on the presentation made before the Chief Minister of Rajasthan by the representatives of Planning Commission who informed the GoR that the MCA has the approval of the Government of India (GoI).

8. On a query from the Chair with respect to the Competent Authority for approval of the MCAs, Advisor, NITI Aayog informed the EI that in case of Central Sector projects, the concerned Ministry is the Competent Authority for approval of the MCA. In case of State projects, State Cabinet or any other agency authorized by the State Government is the competent authority for approval of the MCA. In the proposed projects, Rajasthan Government has taken approval from the State Cabinet. Advisor, Niti Aayog also clarified that the MCA was approved in the Planning Commission after Stakeholder Consultations but there was no Inter-Ministerial Group (IMG) constituted for approving this MCA. The Chair stated that in GoI the nodal Ministry for the Roads sector would be the Ministry of Road Transport and Highways (MoRTH) and it appears that this MCA was not approved in the MoRTH. Any GoI approval for a sector MCA would need to come from the sectoral Ministry. Representative of MoRTH stated that the MCA proposed to be used by GoR has not been approved by MoRTH. Principal Secretary, PWD, GoR stated that in case the provision of DSF is not considered, the proposed projects would be unviable on BOT (Toll). The Chair observed that it is a serious matter as to how an MCA, not approved by the IMG/MoRTH was posed as GoI approved MCA by the erstwhile Planning Commission to GoR. This may be enquired into by Niti Aayog and MoRTH. Accordingly, a reference may go to them.

(Action: GoR)

9. Joint Secretary, DEA stated that under the DEA's VGF Scheme financial support is for making the project commercially viable and it cannot be used to artificially enhance the viability of an inherently unviable project. In case projects are not viable with maximum VGF upto 40% of TPC, such projects may be considered on annuity mode or EPC.

10. Joint Secretary, DEA indicated that the financial calculations submitted by the GoR do not match with the calculations of PPP Cell, DEA and detailed financial model/analysis has not been submitted. This was endorsed by DoE and MoRTH representatives. Principal Secretary ,PWD, GoR responded that the financial analysis was carried out by the financial consultant engaged by the GoR and the financials may be reconciled with the DEA. This was agreed to.

(Action: GoR & DEA)

11. The EI accorded in-principle approval to the above three project with VGF contribution as per the VGF Scheme subject to fulfillment of the following conditions:

11.1 GoR shall update the civil construction cost based on the latest available SOR of the district in which project is located using the standard data book. The civil cost so calculated may be escalated up to the Appointed Date as per the average WPI.

11.2 TPC may be revised as per the provisions of MCA, i.e., only 25% of the civil cost may be added. Cost such as physical contingencies, other escalation factors; etc may not be added separately. The revised TPC may be reconciled with the PPP Cell DEA.

11.3 The maximum grant (including O&M support) would be upto 40% of TPC (including 20% from the project authority/state). There would be no payments, including provision of Deemed Shadow Fee, by Central/ State authorities other than the lowest VGF discovered through an open, transparent bid.

11.4 As agreed to by GoR, GoR shall undertake corrections in the project DCA based on the detailed appraisals given by the DEA, Niti Aayog and MoRTH, as agreed to by GoR.

11.5 GoR shall ensure that the legal vetting of the revised documents is undertaken to ensure that there are no discrepancies in the contract documents and the final DCA shall be shared expeditiously with short-listed bidders.

11.6 GoR shall obtain clearances such as environment and forest clearance for the project site, before award of work.

11.7 GoR shall obtain prior approval of the EI on any change in TPC, scope of work or project configuration as noted above.

11.8 GoR shall circulate the final documents to the members of the EI for record.

(Action: GoR)

12. The meeting ended with Vote of Thanks to the Chair.

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Empowered Institution for the
Scheme to Support Public Private Partnerships in Infrastructure
65th Meeting on July 24, 2015

List of Participants

- I. Department of Economic Affairs**
1. Shri Ajay Tyagi, Additional Secretary (In Chair)
 2. Ms. Sharmila Chavaly, Joint Secretary (Infrastructure)
 3. Smt. Abhilasha Mahapatra, Director (PPP)
 4. Shri V. Srikanth, Deputy Director (PPP).
- II. NITI AAYOG**
5. Shri Praveen Mahto, Advisor, Infrastructure
- III. Department of Expenditure**
6. Smt Saheli Ghosh Roy, Director (PF-II)
- IV. Ministry of Road Transport and Highways**
7. Shri Abhinav Kumar, E.E.
- V. Government of Rajasthan**
8. Shri D.B.Gupta, Principal Secretary, PWD
 9. Shri Shiv Lahari Sharma, Add. Chief Engineer (PPP)
 10. Shri S.L. Fageria, SE (PPP), PWD
 11. Shri Somesh Rathi, EE (PPP), PWD

