

Global Investors Summit 2014



PPP under Swiss Challenge Method

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Unsolicited proposals – Global scenario

Unsolicited proposal refers to a new and innovative proposal submitted by a project proponent, uninvited by the government agency

- ▶ Over the years, there has been an increase in private sector participation in developing countries to fill the growing “infrastructure gap” between the demand and supply
- ▶ Many Countries recognized the role of private sector in bringing technical and managerial expertise to the construction, operation, maintenance and financing of projects
- ▶ To enhance the private sector participation and improve the economic development, Governments started accepting the unsolicited proposals

Benchmarking the unsolicited proposal methods against traditional bidding process

- ▶ Innovative solutions explored
- ▶ Augmentation of PPPs
- ▶ Completion of projects in time and cost saving
- ▶ Provide cost effective solutions

Unsolicited proposals – Global scenario

Process for evaluating the unsolicited proposals in countries that have a formal system in place can be divided into the following major stages:



Currently, three types of prominent systems i.e., Bonus system, Swiss challenge method, Best & final offer are being followed for unsolicited proposals

Prominent Systems being followed	
Bonus system	Awarding the bonus in a formal bidding procedure to the project proponent and its offer is selected if it falls within a stimulated percentage of the best offer
Swiss Challenge Method (SCM)	Allows other parties to make better offers for a project and the project proponent then has the right to counter-match any superior offers
Best & final offer system	Multiple rounds of tendering, in which project proponent has the vested right to participate

Unsolicited proposals – Global scenario

Disadvantages of Bonus and Best & Final offer system

Bonus system



- ▶ May scare other bidders from participating leading to fewer competition
- ▶ Award of contract for higher price as bonus is provided as extra

Best & Final offer system



- ▶ Aggressive bidding as there will be several rounds of negotiation
- ▶ Final round is an open competition where the preferred bid will be selected with no bonuses or advantages given

Developing countries following different unsolicited proposal models

Philippines	Malaysia
Argentina	Chile
Republic of Korea	Indonesia
South Africa	Taiwan

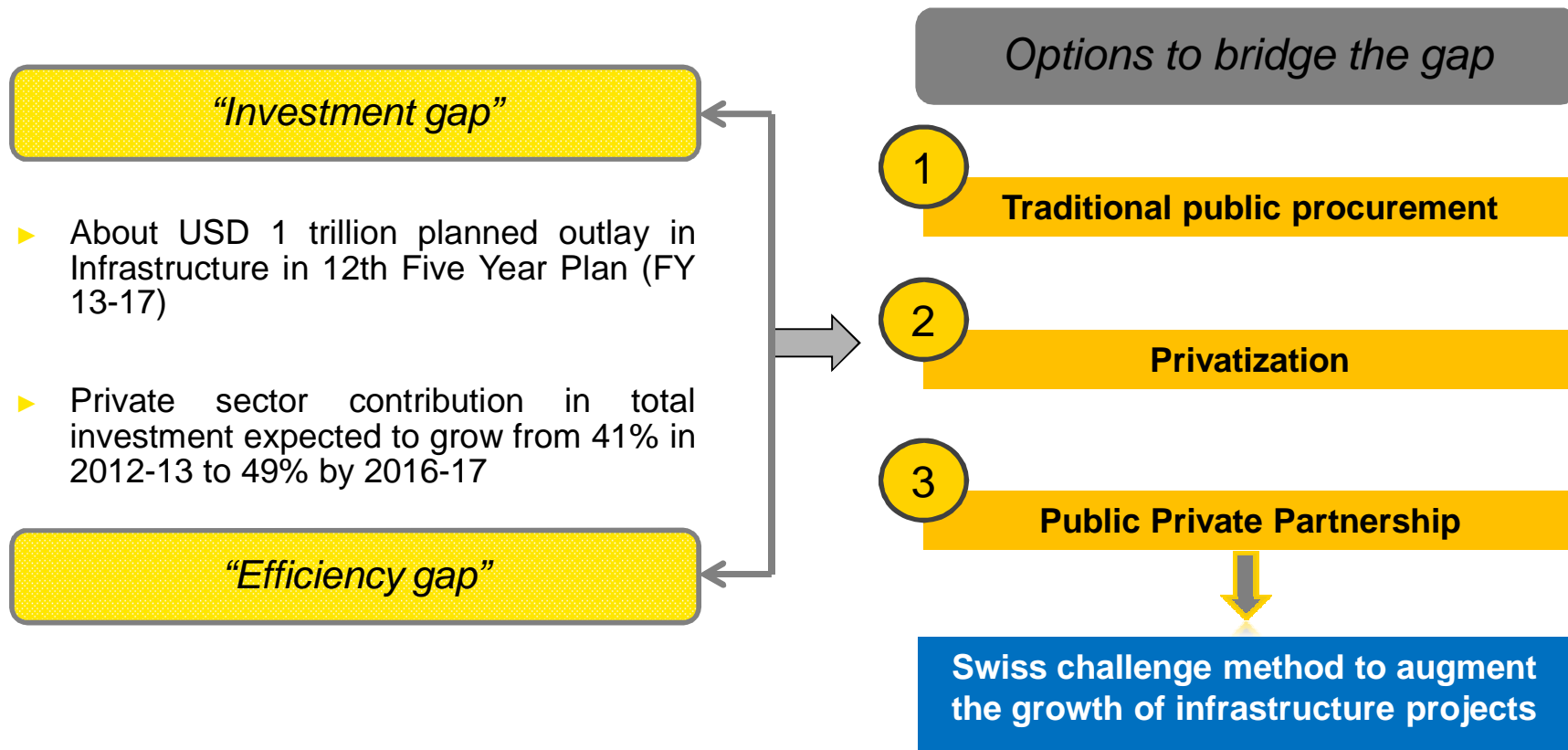
List of prominent SCM projects proposed/ongoing

- Kling valley MRTS project, Malaysia
- Terminal III Ninoy Aquino International Airport, Philippines
- North & South Luzon Expressway connector road project, Philippines
- MRT-7 line, Philippines

SCM is adopted by countries such as Philippines, Malaysia, Guam, Nigeria etc. with projects majorly in Transportation (Road, rail, Airport), Energy etc.

Infrastructure scenario in India

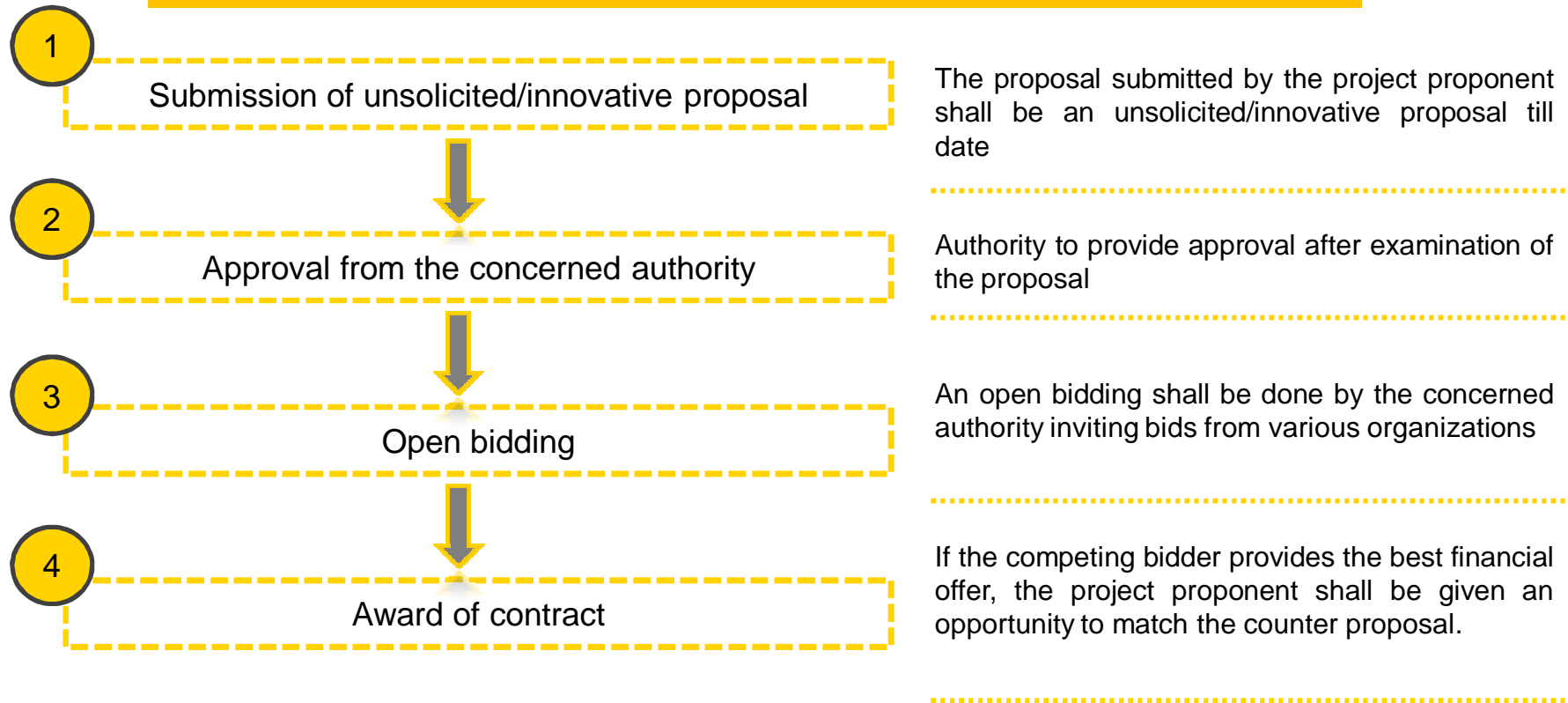
Infrastructure sector going to witness unprecedented activity in India with huge investment opportunities attracting international developers & investors



SCM – A model to develop unsolicited proposals

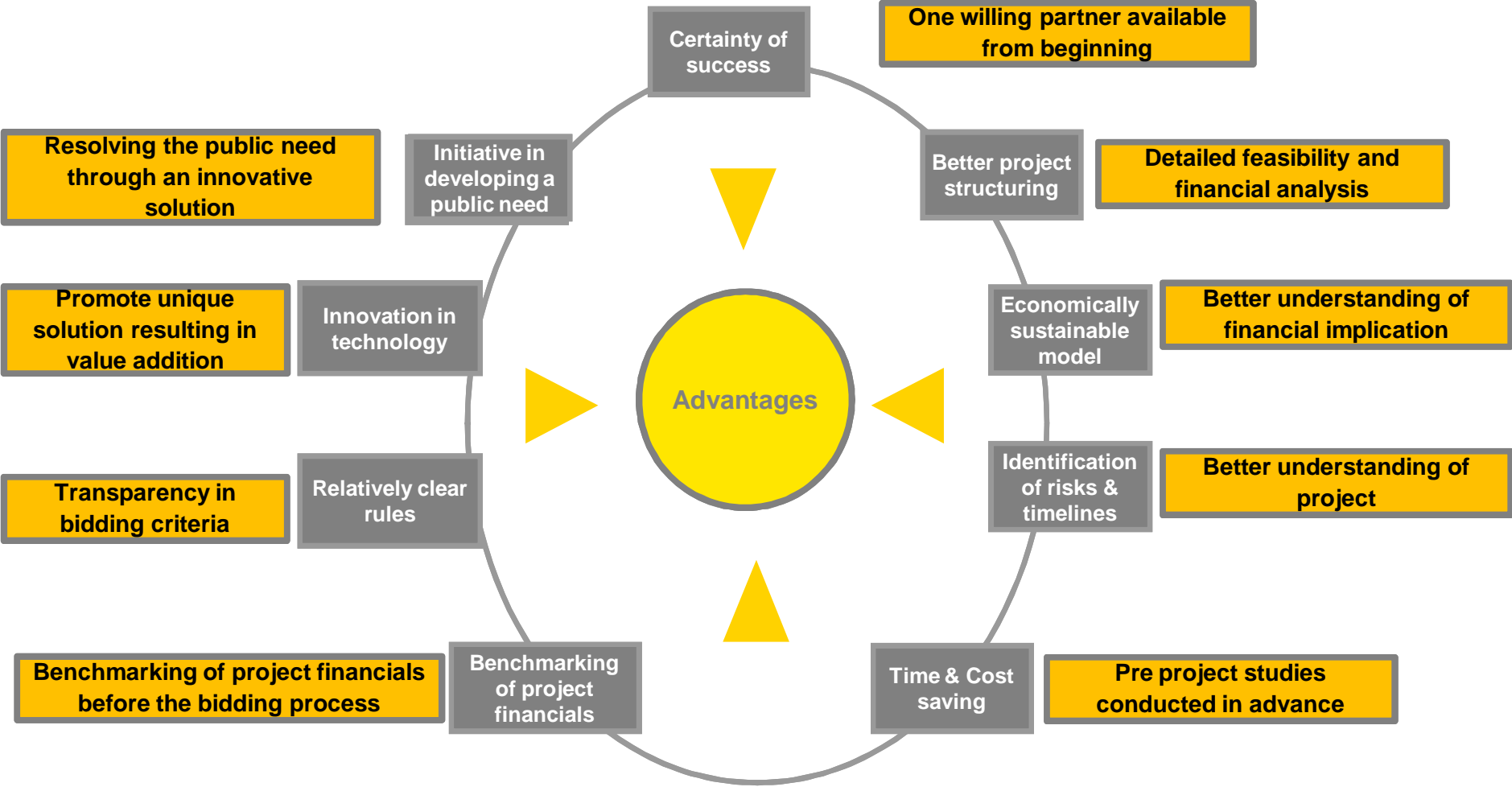
Swiss challenge is a form of public procurement which entails a private sector enterprise in identifying a project and then submitting the proposal to the government

General procedure followed in the swiss challenge method



SCM – Advantages

PPP projects envisaged under the SCM shall have the following advantages

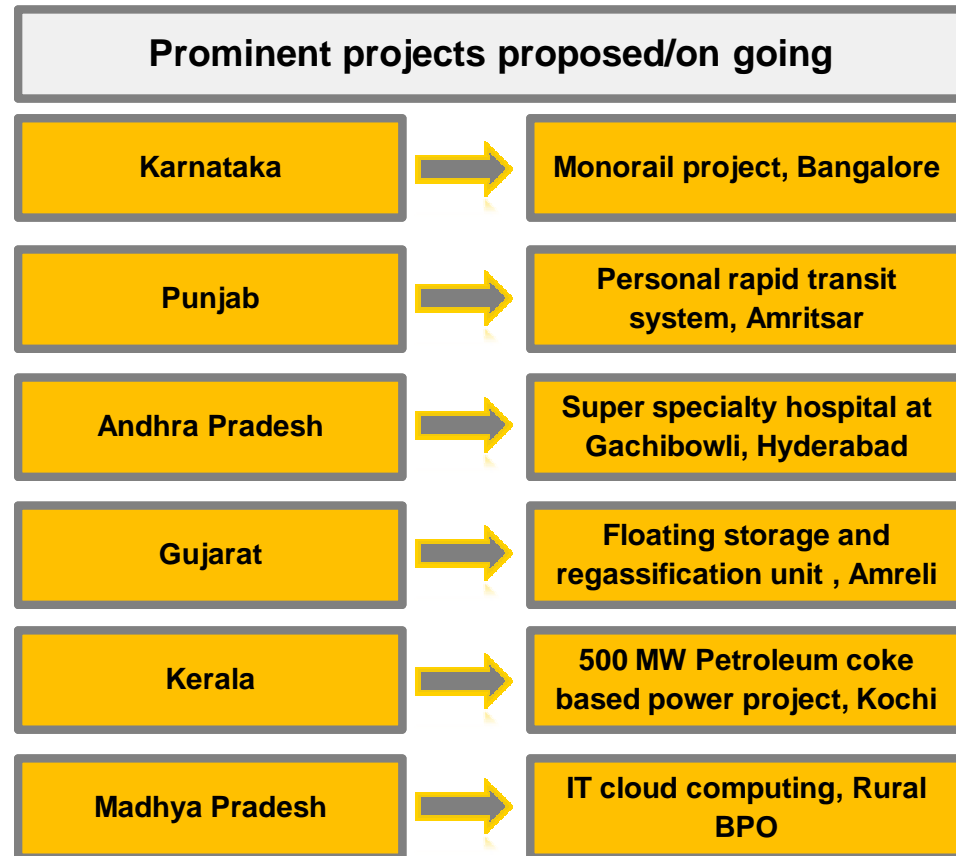


SCM – Indian Scenario

Need for development in infrastructure and social sector projects and to attract private sector participation in the project life cycle development prompted the States in India to adopt SCM

- ▶ Over the years, India has successfully implemented various PPP projects
- ▶ To attract the private sector investment for more faster economic development, has led the states to innovate and adopt the SCM
- ▶ Many states in India such as Karnataka, Punjab, AP, Gujarat, MP etc. have either developed new guidelines/included the SCM in their respective infrastructure policies

Potential sectors: Transportation (Including road, port, rail), Water, power, Information Technology etc.



SCM – In Madhya Pradesh

Vision: To encourage the private and public sector participants to envisage an innovative project by maximizing competition & transparency

Need for SCM in Madhya Pradesh

- ▶ Over the last 5 years, the state has witnessed a phenomenal increase in PPP investments
- ▶ 400% growth has been observed between 2009 & 2014 i.e., from INR 7800 cr to INR 33,800 cr
- ▶ More than 70% of share is from the road sector only
- ▶ There is an urgent need to improve the share of other sectors for holistic economic development of the state
- ▶ PPP under Swiss challenge is a potential route for government to build quality infrastructure, and also increase the economic activities in the state
- ▶ Many innovative projects and proposals in various sectors that are not conceived by the government may be done under SCM
- ▶ To envisage those innovative proposals, government intends to provide opportunity to the private and public sector participants

SCM – In Madhya Pradesh

Objectives for introducing SCM in MP

- ▶ Initiation in spotting an unidentified need and provide solution for the same
- ▶ To bring in technology, finance & expertise in execution
- ▶ To encourage induction of technology and promotion of unique solutions which could result in value addition for the project
- ▶ To invite private capital & private sector efficiency by having open and transparent process
- ▶ To Provide financially sustainable solutions
- ▶ To augment public private partnerships in sectors/projects which are not covered under current PPP framework

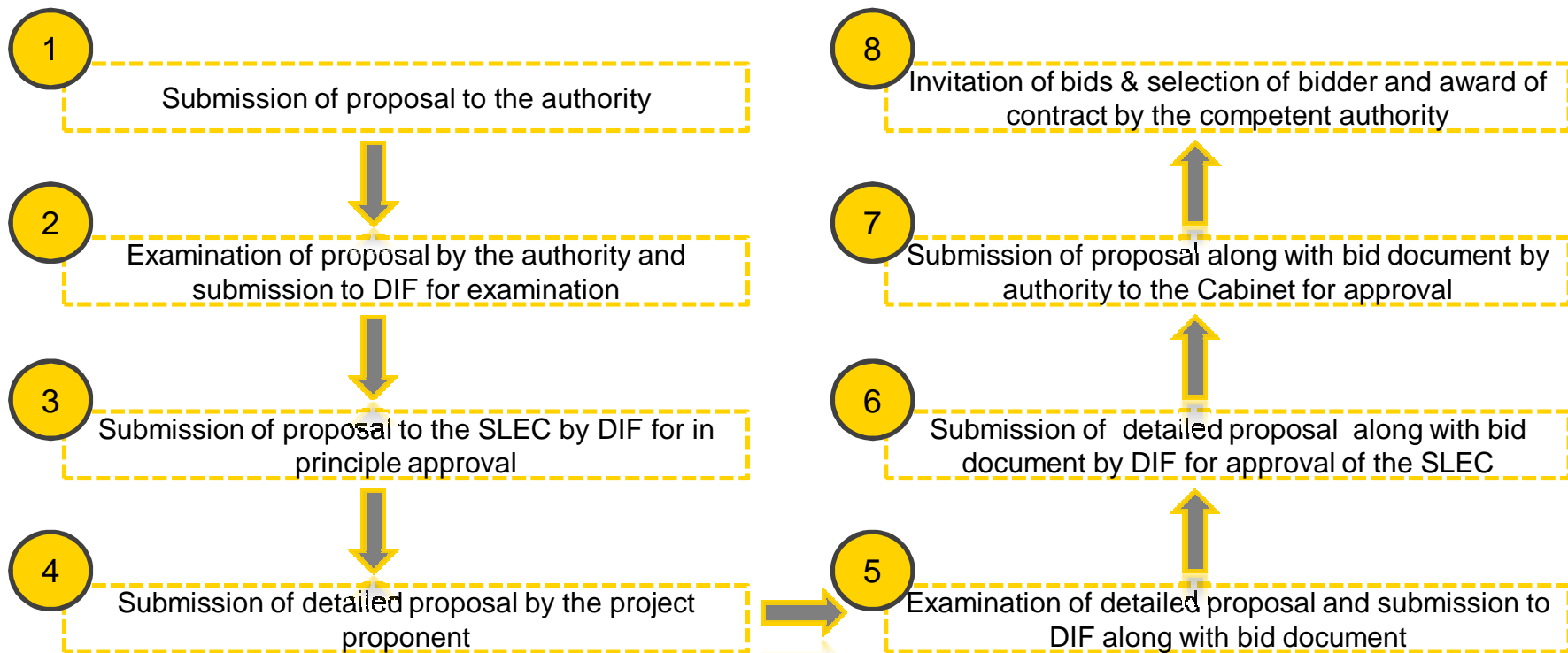
Reasons for non – initiating the project

- ▶ Need establishment with known and reasonable limits and by traditional bid process management
- ▶ Financial Assistance from government by way of VGF is more than 20% for project excluding the cost of land
- ▶ Conflict with the enforced laws

SCM – Procedure to be followed in the state

To encourage the active private and public sector participation, the GoMP has provided provision for both PPP & non PPP projects

Comprehensive procedure to be followed for PPP projects



Incase of non PPP projects, the authority shall submit the detailed proposal directly to the SLEC for approval

SCM – Opportunities in Madhya Pradesh

Swiss challenge method is applicable to any infrastructure and social sectors or combination of both sectors



Other aspects in SCM – Madhya Pradesh

DPR preparation cost and payment

- ▶ DPR preparation cost to be reimbursed to project proponent if the tender is not floated
- ▶ DPR cost to be reimbursed by the successful bidder incase the project proponent do not get the project

Other General rules

- ▶ All projects shall be approved by the SLEC and Cabinet
- ▶ SLEC may modify the timelines based on the project requirements



Time frame

- ▶ Process time: 12 months
- ▶ Process shall include all stages i.e., from examination of preliminary report till the award of contract

Appointment of Consultant/TA

- ▶ Appointed by the authority from the DIF empanelled list for examining the detailed proposal and also for managing the bid process.

Fiscal incentives


- ▶ For eligible PPP projects, the proponent may avail the Viable Gap Funding provided by the Government and any other funding as approved by the concerned authority
- ▶ To encourage private sector participation, GoMP has identified the focus sectors and developed sector specific policies for these focus sectors along with industrial promotion policy
- ▶ The proponent can avail the fiscal incentives from these notified policies for projects which fall under the notified sectors

Sector specific policies introduced by GoMP to encourage private sector participation

- ▶ State Roads policy
- ▶ Tourism promotion policy
- ▶ Industrial promotion policy
- ▶ Warehousing & logistics policy
- ▶ Technical & Skill development policy
- ▶ Information technology investment policy
- ▶ Health care investment policy
- ▶ Power projects investment policy
- ▶ Agri business & Food processing policy

PPP – Financing Support

Viability gap funding scheme



- ▶ Applicable for select sector infrastructure projects which are economically justifiable but not commercially viable
- ▶ Upfront grant assistance of up to 20% of the project cost
- ▶ Project should provide a service against payment of a pre-determined tariff or user charge
- ▶ Line ministries free to provide an additional grant assistance of up to 20% of the total project cost through their own corpus

Madhya Pradesh Infrastructure Investment Fund Board



- ▶ Created through enactment of Madhya Pradesh Infrastructure Investment Fund Board Act
- ▶ DIF is secretariat of the Fund
- ▶ Extends line of credit/ loan/ advance/ grant to the sponsoring agencies for investment
- ▶ Total corpus of the fund is limited to a maximum of INR 1000 Cr

PPP – Financing Support

Madhya Pradesh Project Development Fund



- ▶ Interest free loan or advance at project proposal preparation stage
- ▶ Aims to provide financial support for conducting feasibility studies, environment impact studies, financial structuring, legal reviews, and development of project documentation including concession agreement

India Infrastructure Project Development Fund



- ▶ Established by Gol with INR 100 crore revolving corpus.
- ▶ Provides support to ascertain project viability and other preparatory works
- ▶ Up to 75% of total project development cost can be sourced through this fund.
- ▶ Interest free financial assistance
- ▶ Expected to be recovered from the successful bidder on award of the project

INNOVATIVE INVESTMENT OPPORTUNITIES IN MP

Setting up of Rural BPOs

S.No	Particulars	Details
1	Project uniqueness & social impact	<ul style="list-style-type: none"> ➤ Setting up of rural BPOs which provides employment to rural youth ➤ Provide long term jobs in rural setting and prevent migration of rural youth to urban area
2	Number of centers	A total of 15 new centers in 3 years and reaching full capacity in these centers in 5 years
3	Total investment	INR 143 crore over 5 years in capital/infrastructure, operations and training of youth
4	Total youth to be employed	200 youth per centre (including night shifts)
5	Bidding Parameter	Cost per seat per month
6	Support from the department	<ul style="list-style-type: none"> ➤ To facilitate identification of a building for the BPO, the BPO shall pay rent as applicable, similarly, in the case of power supply, it shall be facilitation, cost to be borne by the firm
7	Project financials	<ul style="list-style-type: none"> ➤ Proponent assumes a viability gap in terms of procuring business in the initial eighteen months. It seeks that the government underwrite 30 % of its business (i.e. 30 seats X 2 shifts) per BPO for the first eighteen months

Thank You