PPP under Swiss Challenge Method

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## Contents

<table>
<thead>
<tr>
<th></th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Unsolicited proposals – Global scenario</td>
</tr>
<tr>
<td>2</td>
<td>Infrastructure scenario in India</td>
</tr>
<tr>
<td>3</td>
<td>Swiss Challenge – A method to develop unsolicited proposals</td>
</tr>
<tr>
<td>4</td>
<td>Swiss challenge - Advantages</td>
</tr>
<tr>
<td>5</td>
<td>Swiss Challenge – Indian scenario</td>
</tr>
<tr>
<td>6</td>
<td>Swiss Challenge – In Madhya Pradesh</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th>Benchmarking the unsolicited proposal methods against traditional bidding process</th>
</tr>
</thead>
<tbody>
<tr>
<td>► Innovative solutions explored</td>
</tr>
<tr>
<td>► Augmentation of PPPs</td>
</tr>
<tr>
<td>► Completion of projects in time and cost saving</td>
</tr>
<tr>
<td>► Provide cost effective solutions</td>
</tr>
</tbody>
</table>
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:

1. Project submission to Govt. & its approval
2. Public tender
3. Award of contract

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

<table>
<thead>
<tr>
<th>Prominent Systems being followed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonus system</td>
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<tr>
<td>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</td>
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<tr>
<td>Swiss Challenge Method (SCM)</td>
</tr>
<tr>
<td>Allows other parties to make better offers for a project and the project proponent then has the right to counter-match any superior offers</td>
</tr>
<tr>
<td>Best &amp; final offer system</td>
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<tr>
<td>Multiple rounds of tendering, in which project proponent has the vested right to participate</td>
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</tbody>
</table>
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

“Investment gap”

- About USD 1 trillion planned outlay in Infrastructure in 12th Five Year Plan (FY 13-17)

- Private sector contribution in total investment expected to grow from 41% in 2012-13 to 49% by 2016-17

“Efficiency gap”

Options to bridge the gap

1. Traditional public procurement
2. Privatization
3. Public Private Partnership

Swiss challenge method to augment the growth of infrastructure projects
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**

1. **Submission of unsolicited/innovative proposal**
   - The proposal submitted by the project proponent shall be an unsolicited/innovative proposal till date.

2. **Approval from the concerned authority**
   - Authority to provide approval after examination of the proposal.

3. **Open bidding**
   - An open bidding shall be done by the concerned authority inviting bids from various organizations.

4. **Award of contract**
   - If the competing bidder provides the best financial offer, the project proponent shall be given an opportunity to match the counter proposal.
PPP projects envisaged under the SCM shall have the following advantages:

1. Certainty of success
2. One willing partner available from beginning
3. Better project structuring
4. Detailed feasibility and financial analysis
5. Economically sustainable model
6. Better understanding of financial implication
7. Better understanding of project
8. Identification of risks & timelines
9. Better project studies conducted in advance
10. Time & Cost saving
11. Pre project studies conducted in advance
12. Benchmarking of project financials before the bidding process
13. Relatively clear rules
14. Innovation in technology
15. Initiative in developing a public need
16. Resolving the public need through an innovative solution
17. Promote unique solution resulting in value addition
18. Transparency in bidding criteria
19. Benchmarking of project financials
20. Resolving the public need through an innovative solution
21. Promote unique solution resulting in value addition
22. Identification of risks & timelines
23. Better understanding of project
24. Economically sustainable model
25. Better understanding of financial implication
26. Detailed feasibility and financial analysis
27. Better project structuring
28. One willing partner available from beginning
29. Certainty of success
30. 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

Prominent projects proposed/on going

- Karnataka: Monorail project, Bangalore
- Punjab: Personal rapid transit system, Amritsar
- Andhra Pradesh: Super specialty hospital at Gachibowli, Hyderabad
- Gujarat: Floating storage and regassification unit, Amreli
- Kerala: 500 MW Petroleum coke based power project, Kochi
- Madhya Pradesh: IT cloud computing, Rural BPO

Potential sectors: Transportation (Including road, port, rail), Water, power, Information Technology etc.
Vision: To encourage the private and public sector participants to envisage an innovative project by maximizing competition & transparency

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

1. Submission of proposal to the authority
2. Examination of proposal by the authority and submission to DIF for examination
3. Submission of proposal to the SLEC by DIF for in principle approval
4. Submission of detailed proposal by the project proponent
5. Examination of detailed proposal and submission to DIF along with bid document
6. Submission of detailed proposal along with bid document by DIF for approval of the SLEC
7. Submission of proposal along with bid document by authority to the Cabinet for approval
8. Invitation of bids & selection of bidder and award of contract by the competent authority

In case 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*

- Agriculture, Horticulture, allied sector & post-harvest management
- Education including Technical Education
- Gas distribution network
- Health
- Highways & Bridges
- Housing & Environment
- Information Technology
- Inland water transport & Water Body Eco-system Management
- Industrial infrastructure
- Trade Fair, Convention, Exhibition and Cultural Centers
- Tourism
- Urban Development
- Irrigation
- Land Reclamation
- Logistics
- New & Renewable Energy (solar, wind, hydel etc.)
- Power sector
- Public Transport
- Public Buildings, Markets, gardens, parks and parking facility
- Sanitation, Sewerage, Drainage etc.
- Sports and Recreation infrastructure
- Waste Management
- Water Supply Project
- Any other project as approved by the GoMP
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 in case 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.
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 GoI 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

<table>
<thead>
<tr>
<th>S.No</th>
<th>Particulars</th>
<th>Details</th>
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<tbody>
<tr>
<td>1</td>
<td>Project uniqueness &amp; social impact</td>
<td>➢ Setting up of rural BPOs which provides employment to rural youth&lt;br&gt;➤ Provide long term jobs in rural setting and prevent migration of rural youth to urban area</td>
</tr>
<tr>
<td>2</td>
<td>Number of centers</td>
<td>A total of 15 new centers in 3 years and reaching full capacity in these centers in 5 years</td>
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<tr>
<td>3</td>
<td>Total investment</td>
<td>INR 143 crore over 5 years in capital/infrastructure, operations and training of youth</td>
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<td>4</td>
<td>Total youth to be employed</td>
<td>200 youth per centre (including night shifts)</td>
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<td>5</td>
<td>Bidding Parameter</td>
<td>Cost per seat per month</td>
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<tr>
<td>6</td>
<td>Support from the department</td>
<td>➢ 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</td>
</tr>
<tr>
<td>7</td>
<td>Project financials</td>
<td>➢ 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</td>
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Thank You