Indian Express
New Delhi
Feb 14, 2007
CE-6092
Imp- CE 759

Infrastructure project norms being changed to encourage only serious pvt investors

AMITAV RANJAN
NEW DELHI, FEBRUARY 14

NORMS for infrastructure projects being implemented under public-private partnership (PPP) are being changed to encourage only serious private investors. At the same time, government agencies will have to spell out all project risks upfront to attract the best bids from them.

According to documents with *The Indian Express*, the government plans to restrict the number of bidders in such projects to a maximum of five to encourage greater participation from "credible" domestic and international investors.

On their part, the government agencies will have to conduct a project risk assessment (PRA) that must "spell out the probability of the project being completed on time and generating sufficient cash flows to service debt".

The proposal is to shorten the pre-qualification process by seeking information from the bidder on its technical and financial capability relevant to the project. "The information sought should be precise and quantified so that the process of shortlisting is fair and transparent, and does not expose the government to disputes and controversies," says the proposal.

It will cut down significant time and costs incurred by interested parties in preparing a response, it adds.

Once the expressions of interest are in, a minimum of three and a maximum of five bidders will qualify for submitting financial bids. "In case shortlisting is to be done for two or three projects at the same time, the shortlisted bidders could be increased to seven and 10 respectively," says the proposal.

The rationale for adopting this global practice is to ensure adequate competition while restricting the zone of consideration so that "a large number of pre-qualified bidders do not

CONTINUED ON PAGE 2

IN BLACK AND WHITE

Implementation Risk Drivers

- Availability/status of project-related infrastructure like land, construction equipment
- Status of environmental and other statutory clearances
- Status of tie-up for raw material
- Offtake arrangement for product (Tie-up with prospective consumers)
- Selection process for bidder
- Track record of projects using similar technology

Post-Implementation Risk Drivers

- Business Risk Analysis: Assessment of contractual risk, offtake risk and raw material supply risk
- Financial Risk Analysis including key financial indicators and validity of assumptions used to calculate viability gap funding

Indian Express 14/02/07 N. Delhi

stability in the region. — ENS

Infrastructure project norms being changed

dampen the participation by serious bidders". "Moreover, restricting the list to the best available bidders improves the chances of a successful PPP operation which is typically spread over a long period," it says.

The elimination would be through well-defined evaluation criteria where technical experience would be assessed on the construction work and/or the revenues earned by the bidder from its projects in the last five years. In case of a consortium, the entity that claims such experience must hold 26 per cent equity in the consortium.

Moreover, the interested party must have five-year experience in operation and maintenance of such projects. In case of a consortium, the member with five year O&M experience must hold 26 per cent equity in the consortium.

"In the absence of such experience, the applicant may be required to enter into an O&M agreement with an entity having equivalent experience, failing which the concession agreement would be liable for termination," say the proposed guidelines.

As for financial capability, the minimum net worth of the bidder consortium should not be less than 25 per cent of the estimated capital cost of the project. But before inviting the bidders, the government agencies or public sector undertakings will have to carry out the PRA — in addition to the detailed project report and the concession agreement — to assess risks emanating out of the project structure.

The rationale for risk rating is that prospective investors get an idea of the risks associated with the project due to its structuring, market conditions of the product or service and the availability of inputs, without being dependent upon the specific developer.

The Department of Economic Affairs has outlined a two-dimension matrix of implementation (rating 1-5) and post-implementation (rating A-E) risks that would be tabulated for the projects on offer. A project with 1A rating would be very attractive to the investor while a 5E project would be approached with a great deal of caution.

The matrix would "help government to bring in modifications in the project to mitigate the risk associated with particular variables and improve its rating and therefore, make it more attractive to the prospective investor thereby ensuring that the project is able to get a good bid from experienced players in the market".

implementation risk 1 — 5
post- " " A — E
1A → very attractive
5E → with great caution