



Government of India
Ministry of Finance
Department of Economic Affairs



Scheme and Guidelines for Financial Support to Public Private Partnerships in Infrastructure



INFRASTRUCTURE
Building for Growth





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Guidelines for Financial Support to Public Private Partnerships in Infrastructure

Viability Gap Funding Scheme

1. Introduction

1.1 The Central Government has notified a Scheme for financial support to infrastructure projects that are to be undertaken through Public Private Partnerships (PPPs). A copy of the Scheme is at Annexure-I.

1.2 The procedure to be followed for submission, appraisal and approval of financial support under this Scheme is specified below. The VGF Scheme submission, appraisal and approval process flowchart is placed at Annexure-XI.

2. Institutional Structure

The institutional structure for appraisal and approval of financial support to PPPs is specified at Annexure-II.

3. Applicability

3.1 These guidelines will apply to PPP projects proposed by the Central Ministries, State Governments and Statutory Authorities, as the case may be, which own the underlying assets (see Rule 5.1).

3.2 Proposals to be made under this Scheme shall be considered for providing Viability Gap Funding (VGF), one time or deferred, with the objective of making a PPP project commercially viable (see definition).

3.3 The proposal shall relate to a Public Private Partnership project which is based on a contract or concession agreement between a Government/statutory entity on the one side and a private sector company on the other side, for delivering an infrastructure service on payment of user charges (see definition).

3.4 This Scheme will apply only if the contract/concession is awarded in favour of a private sector company (see definition).

3.5 A private sector company or Concessionaire shall be eligible for VGF only, if it is selected on the basis of open competitive bidding and is responsible for financing, construction, maintenance and operation of the project during the Concession Period (see Rule 3.1).

3.6 The project should provide a service against payment of a pre-determined tariff or usercharges (see Rule 3.1.iii)

4. Appraisal and ‘In Principle’ Approval by Empowered Committee

4.1 The proposal for seeking clearance of the Empowered Committee shall be sent (in six copies, both in hard and soft form) to the PPP Cell of the Department of Economic Affairs in the format specified at Annexure-IV. The proposal should include copies of all project agreements (such as concession agreement, state support agreement, substitution agreement, escrow agreement, O&M agreement and shareholders’ agreement, as applicable) and the Detailed project report/ Feasibility Report with financial model.

4.2 The proposal will be circulated by the PPP Cell to all members of the Empowered Committee for their comments. All comments received within three weeks shall be forwarded by the PPP Cell to the concerned Administrative Ministry, State Government or Statutory Authority, as the case may be, for submitting a written response to each of the comments. In case the project is based on a model concession agreement, the comments will be furnished within two weeks (see Rules 5.2 and 5.4).

4.3 The proposal, along with the detailed project report, concession agreement and supporting agreements/documents, together with the comments of the respective Ministries and the response thereto, will be submitted by the PPP Cell to the Empowered Committee for consideration and ‘in principle’ approval.

4.4 While submitting the proposal to the Empowered Committee, the PPP Cell will indicate whether the proposal conforms to the mandatory requirements of the Scheme. Deficiencies, if any, will be indicated in the note of PPP Cell. Member Departments/NITI Aayog will examine the proposal with a view to ensure that it conforms to the conditions specified in the Scheme.

4.5 The Empowered Committee will either approve the proposal in principle (with or without modifications) or advise the concerned Ministry, State Government or statutory authority, as the case may be, to provide additional documents/clarifications/information or to make necessary changes for further consideration of the Empowered Committee (see Rule 5.3). Empowered Committee will recommend the projects with VGF sought greater than Rs. 200 Crore to the Finance Minister for in principle approval.

4.6 Approval under this Scheme will be for the purposes of this Scheme only. All other statutory, financial or administrative approvals shall be obtained as applicable (see Rule 5.5) from competent authority. For projects owned by the Central Government or its statutory entities, approval of PPPAC shall also be obtained in accordance with the guidelines issued by the Ministry of Finance. However, these approvals may be obtained simultaneously in order to save on time.

4.7 In cases where financial support is available from any other Ministry of the Central Government under an on-going Scheme for assistance to PPPs, the proposal would be sent to such Ministry for consideration. In case the Ministry recommends that the proposal be

considered for additional assistance under this Scheme, the same shall be submitted to the Empowered Committee for consideration (see Rule 5.6).

4.8 Empowered Committee will recommend the projects with VGF sought greater than Rs. 200 Crore to the Finance Minister for final approval.

4.9 Once cleared by the Empowered Committee / Finance Minister (as the case may be), the project would be eligible for financial support under this Scheme.

4.10 It may be noted that prior to making a formal request to the Empowered Committee under the Viability Gap Funding (VGF) Scheme of GoI, the Sponsoring Authority of a Public Private Partnership (PPP) project may if it so desires submit the project concept to the Department of Economic Affairs to ascertain the admissibility of a project under the VGF Scheme based on the mandatory conditions of the Scheme. The proposal in this regard may be submitted to the Department of Economic Affairs in the attached proforma (Annexure-X). Within 7 (seven) working days of receipt of the duly filled proforma the Department of Economic Affairs would indicate to the Project Authority whether the project proposal could be proposed for the consideration of the Empowered Committee. Such a proposal could be made in case a doubt exists regarding the admissibility of the project under the VGF Scheme.

5. Viability Gap Funding (VGF)

5.1 The quantum of financial support (VGF) to be provided under this Scheme shall be in the form of capital grant and operational grant at the stage of project construction and first 5 years after the CoD, as the case may be as given in Rule 4.1 of the Scheme (Annexure-I)

6. Invitation to Bid

6.1 Financial bids shall be invited by the concerned Ministry, State Government or statutory entity, as the case may be, for award of the project within four months of the approval of the Empowered Committee. This period may be extended by the Department of Economic Affairs, as necessary (see Rule 7.1).

6.2 The private sector company shall be selected through a transparent and open competitive bidding process. The criterion for bidding shall be the amount of VGF required by a private sector company where all other parameters are comparable (see Rule 6).

7. Final Approval by Empowered Committee

7.1 Within three months from the date of award, or such extended period as may be permitted, the Lead Financial Institution shall present its appraisal of the project (in six copies, both in hard and soft form) for consideration and approval of the Empowered Committee. The appraisal shall be accompanied by an updated application in the format specified at Annexure-IV along with the

project report and project agreements. The Lead Financial Institution shall verify the contents of the application and convey its recommendation to the Empowered Committee (see Rule 7.2).

7.2 Prior to final approval by the Empowered Committee, the Ministry, State Government or statutory authority, as the case may be, proposing the project, shall certify that the bidding process conforms to the provisions of this Scheme and that all the conditions specified in the Scheme/in principle approval of the EC have been complied with(see Rule 6.2).

7.3 The procedure specified in para 4 above shall be followed mutatis mutandis for examination and approval of the appraisal report of the Lead Financial Institution.

7.4 In case, the Government or statutory entity proceeds with bidding process with substantial alterations to the bidding documents and provisions approved by the Empowered Committee without taking prior approval of the Empowered Committee, the Empowered Committee may decline the final approval to the project.

8. Disbursement of VGF

8.1 Prior to disbursement, the Empowered Committee, the Lead Financial Institution and the private sector company (sponsoring authority would be the confirming party) shall enter into a Tripartite Agreement in such format as may be prescribed by the Empowered Committee from time to time (see Rule 8.3).

8.2 For the purposes of this Scheme, a Lead Financial Institution shall be the Financial Institution (FI) that is funding the project, and in case of a consortium of FIs, the FI designated as such by the consortium shall be the Lead Financial Institution (see definition).

8.3 Capital Grant VGF shall be disbursed only after the private sector company has subscribed and expended the equity contribution required for the project and will be released in proportion to debt disbursements by Lead Financial Institution.

However, in case of sub-scheme 2, Operational grant shall be disbursed annually for the first five years post achieving COD based on audited annual accounts and shall be subject to the lower of the annual O&M cost quoted by the concessionaire at the time of the bid and actual O&M cost incurred. (see definition of O&M cost). (see Rule 8.1).

8.4 In case, a project under sub-scheme 1 & 2 is funded completely by equity, Capital Grant VGF shall be disbursed after the equity contribution is expended by the concessionaire in accordance with the project milestones achieved (lower of physical or financial progress).

8.5 VGF shall be released to the escrow account only after the recommendations of the Sponsoring Authority (see Rule 8.2).

9. Monitoring

The Lead Financial Institution shall be responsible for regular monitoring and periodic evaluation of project compliance with agreed milestones and performance levels, particularly for the purposes of disbursing the VGF. It shall also send a quarterly progress report to the Empowered Committee (see Rule 7.3).

10. Recovery of VGF in case of terminated projects

If the project is terminated at any point of time during the concession period, the VGF may not be recovered from the Authority if it is re-bid and continued as PPP. However, if the project is terminated at any point of time during the concession period and not continued as PPP project, then 90% of Capital Grant disbursed under this scheme may be payable by the Authority to the Ministry of Finance. The timeline for re-bidding and continuing such projects as PPP by the Project Authority would be 1 (one) year from date of termination of the project, after which the proceedings for recovery of VGF will be initiated. However, EC may extend this timeline further on a case to case basis.

11. Amendment to the Scheme

Any amendment to the Scheme which does not result in any material alteration to the Scheme may be done on the recommendations of EC with the approval of the Finance Minister.